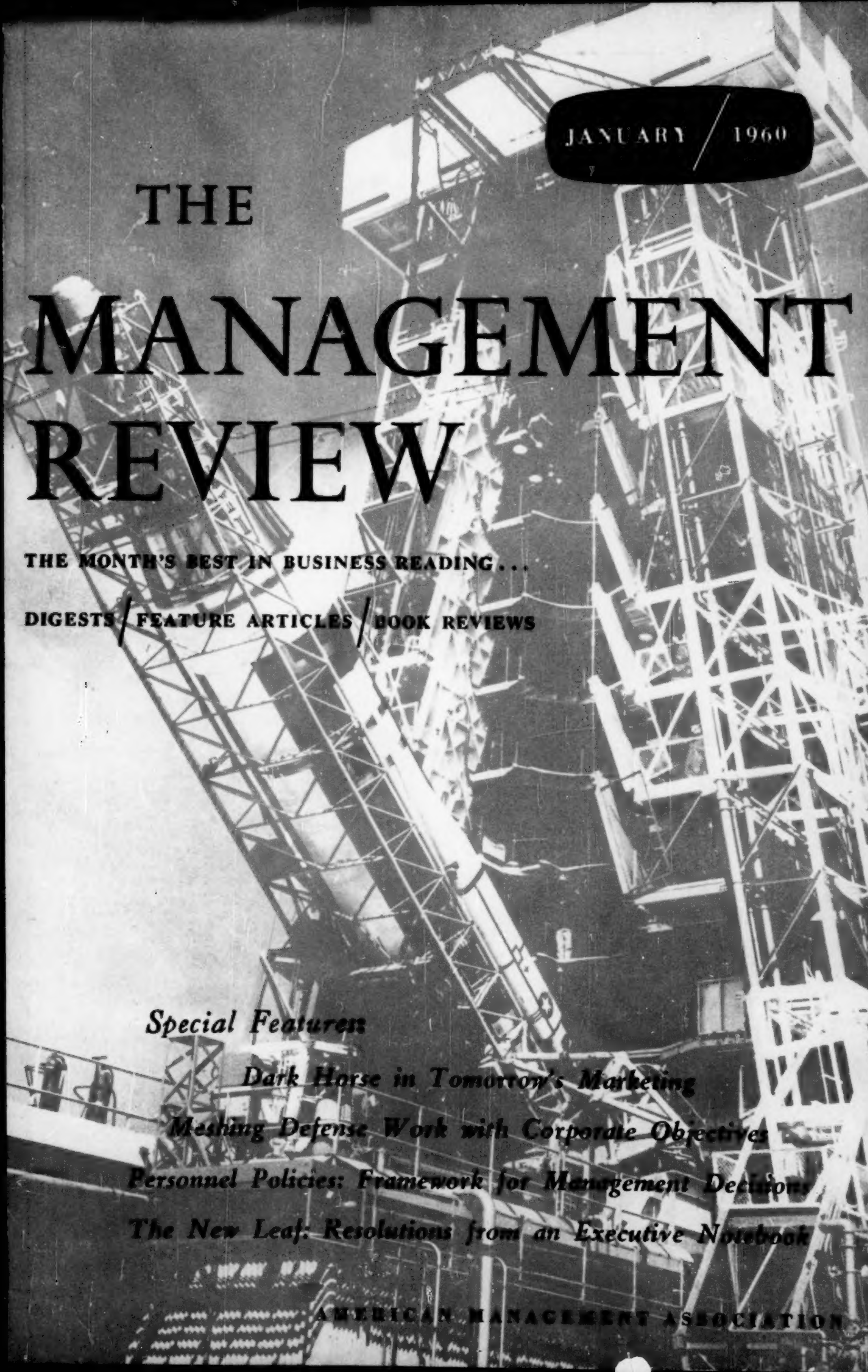


JANUARY / 1960

THE MANAGEMENT REVIEW

THE MONTH'S BEST IN BUSINESS READING...

DIGESTS / FEATURE ARTICLES / BOOK REVIEWS

Special Features:

Dark Horse in Tomorrow's Marketing

Meshing Defense Work with Corporate Objectives

Personnel Policies: Framework for Management Decisions

The New Leaf: Resolutions from an Executive Notebook

AMERICAN MANAGEMENT ASSOCIATION

Planning New Products . . .

SPECIAL
RESEARCH & DEVELOPMENT
CONFERENCE

February 24-26, 1960, Drake Hotel, Chicago

AT THIS SPECIAL AMA CONFERENCE you will learn about better ways . . .

. . . ***to develop new-product idea sources***

. . . ***to find, screen, and appraise new products***

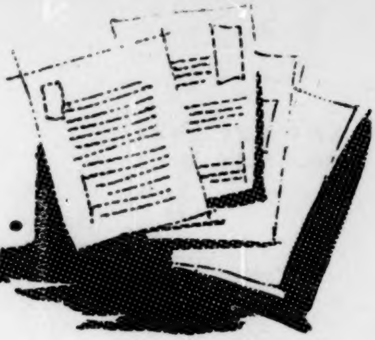
. . . ***to integrate packaging with the product development process***

. . . ***to handle service as a product.***

Conference speakers themselves are leaders of pace-setting product development programs. From them you'll hear how forward-looking managements develop the new products they need to win out in highly competitive markets . . . how top management looks at the product development department, and what they are doing to spur its efforts . . . how research can be geared directly to product up-dating . . . how an effective product development program is organized . . . and how a top-notch product manager functions.

Plan to use this conference as the start of an improved product development program in your own company. Insure attendance for yourself—and a team of staff members—by registering now. Just write, wire, or phone Department 12, AMA.

American Management Association, Inc.
1515 Broadway, Times Square
New York 36, N. Y.



in this issue . . .

- **"You're just paying for the advertising."** What consumer, shopping for anything from aspirins to air conditioners, hasn't been offered goods under a private brand that's allegedly "just as good, but much cheaper"? Today, in fact, almost every national-brand product sold at retail is up against stiff competition from "our own" makes—not only in supermarkets, mail-order houses, department stores, and chains, but in the small neighborhood shop as well. This month's opening feature by George Christopoulos examines the important share of the market that private labels have captured and their impact on manufacturers of national brands—some of whom are already asking themselves whether they should try to beat them or join them.

- **Defense Work and Corporate Objectives.** Defense business can benefit almost any organization. And, far from disrupting a company's regular operations, it can help management to realize certain broad organizational advantages—*if* it is properly integrated in the over-all scheme of things. To this end, Rodney Gott's article (page 10) offers some advice based on American Machine & Foundry's broad experience in research and manufacturing for government and for a diversified civilian market.

- **A Framework for Decisions.** Though personnel policies are usually formulated by staff people, every line executive has an important stake in their development and day-to-day application. In discussing the use of personnel policies as a tool in decision-making (page 20), Ernest C. Miller also considers whether and when it's right to make exceptions.

- **Paved with Good Intentions.** And with this month's cartoon feature—*The New Leaf: Resolutions from an Executive Notebook* (page 16)—we wish all our readers a happy and prosperous New Year.

—The Editors

JANUARY 1960
Volume XLIX, No. 1

THE MANAGEMENT REVIEW

FEATURES

BUSINESS DIGESTS OF THE MONTH

Trends and perspectives

Cover photograph: H. Armstrong Roberts

HARWOOD F. MERRILL, *Editorial Director*

VIVIENNE MARQUIS, *Editor*

ROBERT F. GUDER, *Managing Editor*

PETER REID, *Digest Editor*

PETER HAAS, *Assistant Editor*

JULIET M. HALFORD
Book Review Editor

LYDIA STRONG
Contributing Editor

GRACE T. COMPTON, *Editorial Assistant*

THE MANAGEMENT REVIEW is published monthly by the American Management Association, Inc., at 1515 Broadway, Times Square, New York 36, N. Y. Entered as second-class matter March 26, 1925, at the Post Office at New York, N. Y., under the act of March 3, 1879. Second-class postage paid at New York, N. Y. Subscriptions: $7.50 per year (nonmembers, $12.50). Single copies: $1.00 (nonmembers, $1.25). Volume XLIX, No. 1, January, 1960.

Changes of address should be forwarded to the publishers *six weeks in advance* and postal zone numbers should be included in all addresses.

The American Management Association does not stand sponsor for views expressed by authors in articles issued in or as its publications.

An index to THE MANAGEMENT REVIEW is published annually with the December issue. The contents are also indexed in the Industrial Arts Index. THE MANAGEMENT REVIEW is microfilmed by University Microfilms, Ann Arbor, Mich.

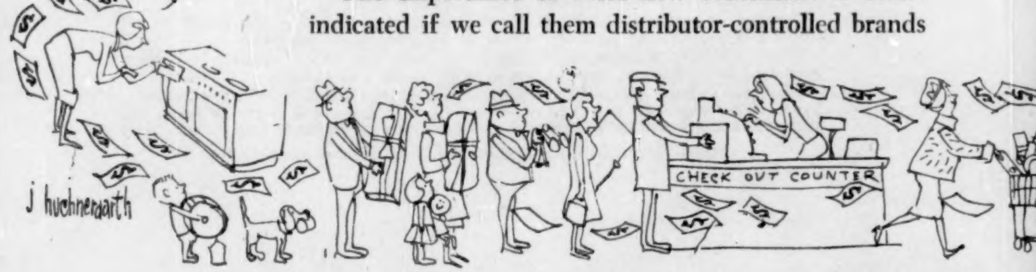
DARK HORSE in Tomorrow's Marketing

■ *George Christopoulos*
Biddle Purchasing Company

IF TODAY'S BRAND-NAME PRODUCER is still thinking of private-label products as minor efforts by small or little-known regional manufacturers, or as products carried on the side by a large store or chain, he's likely to be lulled to sleep—and wake up smarting.

Obviously, standard-brand producers still lead the field, but in some categories they're already running neck and neck with giant retailers who are wooing and winning customers for goods issued under their own label. Wholesalers, too, are successfully providing private-label products for groups of retailers. The manufacturers of nationally advertised brands of consumer goods aren't exactly running scared, but many of them realize that strong contenders have entered the race for the consumer's dollar.

The importance of these new contenders is better indicated if we call them distributor-controlled brands



instead of private brands. The standard-brand manufacturer has a better idea of what he's up against when he realizes that today's private brands aren't the feeble efforts of small manufacturers, but are backed by strong and vigorous distributors—including giant retail chains. The distributor has not remained small while most of the great brand-name producers have been growing; he, too, has grown, not only in size and in volume of goods sold to the public, but in ambition. Retailer giantism is only beginning, and in the next generation it may be the undoing of some of today's successful manufacturers.

THE LURE OF PRIVATE BRANDS

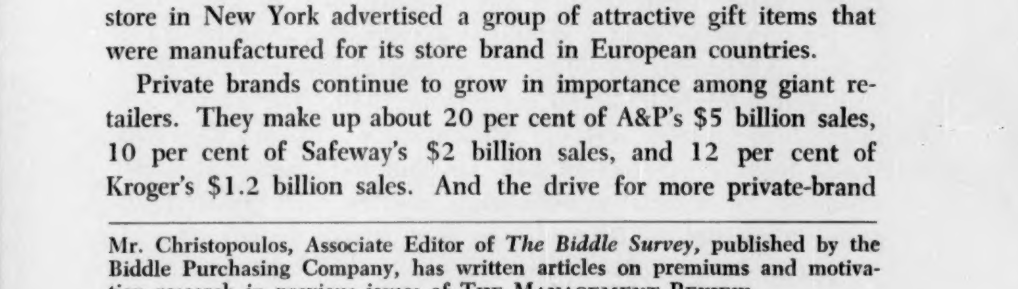
Some leading retailers owe their existence to brands they have had manufactured for their controlled sale, others to products they themselves have manufactured in their own plants. These two factors alone would have made distributor-controlled brands a thorn in the side of national brand makers. But the situation took on serious proportions when smaller outlets began combining to push their own-brand merchandise in their stores. The giant retailers—spurred on by the increase in competition and the lowering of profit margins—have turned more and more to private-label goods as a means of increasing net profits.

High-profit imports have similar attraction for many wholesalers and retailers. Quite often the two (imports and distributor brands) are combined. Demand is strong for well-produced imports that can be branded, advertised, and sold under the aegis of the retailer. For example, just before the holidays, Bloomingdale's department store in New York advertised a group of attractive gift items that were manufactured for its store brand in European countries.

Private brands continue to grow in importance among giant retailers. They make up about 20 per cent of A&P's $5 billion sales, 10 per cent of Safeway's $2 billion sales, and 12 per cent of Kroger's $1.2 billion sales. And the drive for more private-brand

---

Mr. Christopoulos, Associate Editor of *The Biddle Survey,* published by the Biddle Purchasing Company, has written articles on premiums and motivation research in previous issues of The Management Review.



selling continues. Kroger now earmarks one-fourth of the profits from Kroger-made products for its profit-sharing plan, to encourage employees to push its own brands. In some categories, distributors rely almost completely on their own brands. An industry source says that A&P does 95 per cent of its meat volume under its own Super-Right name.

PAST, PRESENT, AND FUTURE

For the past eight years, the A. C. Nielsen Co. has been conducting a study on distributor-controlled labels in the food field. At the last meeting of the Grocery Manufacturers of America in November, the research organization revealed that the private-label share of the market had dropped slightly, but it had remained on a high plateau, accounting for about 25 per cent of all sales in the grocery field. This is a sizable percentage, and it represents no small sum of consumer money, since 1958 sales in food stores totaled $48 billion. J. O. Peckham, who delivered the Nielsen findings to the grocery suppliers, went on to predict that manufacturers of major advertised brands would continue in the 1960's to capture three out of four consumer sales. But consumer sales in food stores in 1969-70, he estimated, would be about $75 billion. In short, private labels are not only here to stay, but they will be growing in total sales along with the economy.

What may not have been given sufficient emphasis is that a remarkable change has occurred over the years in the share of the market controlled by distributors' labels. At a recent meeting of the American Marketing Association, E. B. Weiss cited a study by the Federal Trade Commission, which indicated that, in 1922, only 3.6 per cent of the grocery volume of the reporting chain stores was in their own brands. By 1928, the percentage had risen to 8.8 per cent, and it finally broke 10 per cent in 1930. The 25 per cent share of the market that the Nielsen study attributes to private brands today is evidence of how far they have come. It is not impossible for national manufacturers to suffer even greater losses during the sixties and seventies—and not only in the grocery field.

Standard-brand manufacturers sometimes make the mistake of thinking that the distributor-controlled brand plays a significant role only in the food field. In point of fact, other-than-food private-label activity is just as big, and it promises to grow even larger.

Examples of nonfood private-label selling abound. The private brands of shoe chains, for instance, outsell manufacturer brands. The extent to which even a national hard-goods manufacturer may go in for private labels is indicated by the fact that approximately half the volume of the consumer products division of Arvin Industries, Inc., is in controlled brands.

Or take the example of one of the best-known chain stores, J. C. Penney Co. This second-largest retailer of general merchandise in America (after Sears, Roebuck & Co.) deals primarily in clothing dry goods, and variety items, which account for 95 per cent of its annual volume. Most of these wares, manufactured by more than 6,000 suppliers, are sold under the Penney name in its 1,600 stores. Japanese and European merchandise being sold under the Penney brand are on the increase—a post-war development on many fronts of the private-label battle.

A top women's magazine recently reported that private labels on health and beauty aids are making little progress in the food supermarket. Perhaps that is the case, but one house-to-house selling organization, Avon, has been thriving with its line of beauty products. Macy's has been doing a good job for years with its own label on toiletries, and even Bonwit Teller offers a full line of its own beauty preparations. Woolworth's recently committed its entire chain to a controlled label of vitamins—a radical departure, since it did not offer vitamins before. The May Co., a department store chain of some account, announced that its private-label program will be put into higher gear this year to meet similar expansion ideas of other department stores.

Other news of private-label activity continually cuts across the nonfood field. The gasoline to be sold in the pumps of a big supermarket chain will be a private label. Underwood Corp. is producing distributor-label typewriters for sale by the Kroger Co.; they bear the Underwood name in addition to the private label and are offered by 63 Kroger stores in Ohio at a price $20 under the usual list price of $80.

HEADACHE FOR NATIONAL BRANDS

Private brands also play an important role in drugstores; certainly the major drug chains have been using the private label in many ways.

A drugstore in the heart of midtown Manhattan, one of a nationwide chain, provides some idea of the growing importance of private labels. Of every $1,000 of sales, the branch unit estimates that about $100, or 10 per cent, is in brands bearing the chain's readily recognized label.

The greatest sales weapon of the retailer is display. Take aspirin, for example. In this store, the private-label aspirin—which is the only one prominently displayed—outsells the best seller of all the advertised brands by 50 to 1. To most customers, a headache is a headache, and aspirin is aspirin. They assume a drugstore's aspirin is as much a headache pill as that made by a national manufacturer, and, since it's readily at hand, the store's brand is the one they pick up.

"I said I'd stock your brand, but I didn't say where."
—*Progressive Grocer 10/59*

Even when customers ask by name for a national advertiser's brand, they may still wind up buying the distributor's own brand of aspirin. Politely, but with great assurance, the man in the white coat behind the counter suggests the store's private label. He points out, logically and with authority, that all aspirin is alike—and he clinches the sale with a reminder that the store's brand sells for a much lower price.

What motivates the drug clerk to push his store's own products? The same thing that finally convinced the customer—money. In the prescription department of this New York drugstore, and in all the chain's many stores throughout the country, there is an illustrated poster that keeps the private-label story before the employee's eyes. Above a comparison chart on analgesic tablets is this headline: "DISPLAY—PROMOTE—SUGGEST & SELL OUR OWN BRANDS!" The chart (see next page) shows clearly that the private label is more profitable to both the company and the clerk.

COMPARISON CHART

	Chain's private label	Brand A	Brand B	Brand C
Contents	100	100	100	100
Retail price	\$.69	\$1.19	\$1.35	\$.89
Cost	.18½	.79½	.85½	.48
Profit	.50½	.39½	.49½	.41
Gross profit	73%	33%	37%	46%
COMMISSION on sales to clerk	4%	NONE	NONE	NONE

The chain's sales division has also prepared a story to go along with this poster on analgesics that summarizes the private-label attitude in most retailing. "Now our profitable brand of Analgesic Tablets contains the most accepted formula for the fast relief of pain due to headaches, neuralgia, and neuritis. (Private label) tablets are more profitable to you, your Company, your customers. Sell them at *every* opportunity." A chart of the contents of the three types of tablet confirms that they are nearly identical.

It is no wonder, then, that employees push the store's private-label goods. As one pharmacist said, "I believe in selling the store's label right down the line. They're as good as anybody else's; they have to meet government specifications. And I get my commission. I especially like to switch poor people to our own merchandise; it makes me feel good to save them money."

PRICES AND PROFITS

The number of private-label items that this typical chain retail unit carries is about 10 per cent of the estimated 20,000 items on the shelves. The store's brands include ethical drugs, patent medicines, health and beauty aids, film, tobacco, cigars, and other goods as well.

The mark-up on private-label goods is appealing to the chain's managers. Specific illustrations could be found easily: One na-

(*Continued on page* 70)

Meshing DEFENSE WORK with CORPORATE OBJECTIVES

Almost any company can benefit from some defense business, but not if it disrupts normal operations. Here are some guides for integrating government work with the over-all goals of the organization . . .

■ *Rodney C. Gott*
Executive Vice President
American Machine and Foundry Company

THE UNINITIATED MEMBER OF MANAGEMENT who is thinking about bidding on government business has undoubtedly heard about some of the hazards that lurk to baffle the unsuspecting, and he may wonder how his organization will be affected if he is awarded a defense contract. There are, it is true, serious pitfalls involved in entering defense work, but many companies have learned to live with them and are reaping both tangible and intangible benefits from their government contract work.

There are several types of contracts, ranging from cost-plus-fixed-fee contracts, which carry the least risk and also the least profit, to fixed-price contracts, which offer the highest profits along with the highest risks. A company must evaluate the type of risks it can take and try to obtain the type of contracts best suited to its structure.

Some of the factors that cut back corporate profits are recognizable even before work has started on a single government contract. For example, the cost of acquiring a government contract, particularly an R & D contract, is inordinately high. It includes the cost of preparing a technical proposal—which in these days of a rapidly advancing technology really amounts to a feasibility study—in addition to the continuing costs of the whole solicitation effort. And for each successful proposal, there are others that are costly failures. In the competitive markets of today, conversion ratios (proposals converted to proposals prepared) are low enough to make the initial investment a real deterrent to a company that is considering soliciting defense business.

FACTORS THAT REDUCE PROFITS

In addition to the costs of bidding, there are other profit inhibitors found in defense business. The uncertainty of follow-on production orders and the problems of renegotiation, for example, can affect a company that has taken on a development contract at a very low profit margin in the hope that production orders will bring profits up to some reasonable percentage. In these days of rapid obsolescence, even if the company gets a production order, the size of the order is likely to be considerably lower than originally expected. Often the adjusted rewards are so low that, had the contractor been able to predict them in the beginning, he never would have accepted the R & D contract.

Renegotiation of contracts

Renegotiation of contracts penalizes the responsible contractor who attempts to complete a government contract at the lowest possible total cost. Years after a contract has been completed, the contractor is likely to have to restate the company's earnings to the stockholders. These two aspects of renegotiation—the lack of incentive

to reduce costs and the uncertainty of final earnings—have undoubtedly discouraged many potential contractors from investigating government contracts. A step in the right direction is the incentive-type contract, whether cost-plus or fixed price, even though it also is subject to renegotiation.

In addition to the costs that a contractor is in a position to predict, there are some that can't be anticipated quite so easily. Many of this latter category fall in the area of administration.

Reporting requirements

The reporting requirements of a government contract are far more exacting than those called for by a unit's own management. Reporting for a proprietary R & D project may be on a very informal basis, with typewritten engineering reports issued as progress is made or as unforeseen difficulties arise. But in a government contract, in addition to the countless cost figures that the accounting and related groups must provide, technical progress reports are required, usually every month. Moreover, quarterly reports, semiannual reports, annual reports, and lastly, final reports must be submitted. The technical progress made is recorded in great detail—so great, in fact, that one engineer may spend a major portion of his working time just accumulating information to record what has been accomplished.

Security requirements

Inspections, management evaluation surveys, and additional accounting procedures also interfere with normal productivity and add to overhead costs. And, of course, when a defense contract is classified, there is the security problem. Plant guards 24 hours a day, documents locked in protected files, security fences, security clearances, staffing a security department headed by a knowledgeable security officer—all contribute to administrative costs.

Procurement policies

Just as important as the security cost is the cost to the company of adhering to the specialized procurement policies and procedures of the government. The contractor must employ specialists in government procurement—people who can find their

way through the maze of regulations and instructions so that the company can request, evaluate, award, administer, and terminate subcontracts. Few purchasing agents familiar only with proprietary and commercial activities would even know where to begin.

Capital turnover

One of the principal objections that many businesses have to entering the defense contract market is that the funding philosophy of the government makes it difficult for them to make a fair return on their investment. In commercial markets, a company may have a low profit margin as a percentage of sales, but it can turn its capital over many time a year and thus come up with a satisfactory return on its investment. With government contracts, increasing the capital turnover rate means getting the highest possible progress payments and fixing the earliest possible liquidation dates for contractual commitments. Often, the government's concern for debt ceilings and budget considerations results in delays in the program and slow collection; capital turnover is retarded and cannot be speeded up.

If a company can't turn its capital over enough times during the year, it may find it is not even earning what it would have earned in interest—or so little more that the earnings are hardly worth the effort and the risk.

CHANGING REQUIREMENTS

Government requirements change frequently. This is not necessarily the government's fault, because the exploding technology of this age demands change, but any changes, regardless of the reason for them, contribute to costs.

Terminations

At least three conditions can cause changes in a company's plans after it has been awarded a contract. The first of these is terminations. Terminations are for the convenience of the government; frequently they occur because of changes in defense planning. No matter what the reason, they can result in lower profits to the contractor. In commercial contracts, the supplier usually retains the right to claim his full profit, even when the contract is terminated

before completion. Under government contracts, this right is withheld. The government can terminate the contract and, at best, pay costs to date plus a portion of the original profit.

Delivery requirements

Government delivery requirements can also change, or delivery requirements that both parties (government and contractor) recognize to be unrealistic can be imposed. Since the contractor, if he cannot meet delivery, can be terminated for default, the company may spend more time and money than was contemplated on the preparation of the proposal, thus cutting back on its own profit.

Obsolescence

Another cause of changing requirements is obsolescence. In these days when technology is advancing at a staggering rate, long periods of research, design, and development often result in items of equipment that never go into production. Companies that have accepted development contracts, looking forward to profitable production follow-up, have often found that profits were far below expectations—and sometimes that there was no profit at all.

Of course, there are technical considerations that go far beyond the administrative ones. Government specifications, for example, are likely to require engineering and analytical proof of designs that would seldom if ever be required during commercial or proprietary development projects. Specifications can't be taken for granted. More than one company has bid on a government contract without checking carefully all the applicable specifications only to find that government specifications are quite rigorous in many areas where the usual industrial specification is general.

These many considerations which inhibit reasonable profits under defense contracts are well known and recognized throughout industry. This is not to say that the fault is easily placed or that the government has no reason for behaving as it does. The Air Force, for example, recognizes that these are problems, and is making a comprehensive review of its weapons management practices. We must recognize, however, that the administrative problems facing the government in the development of new weapons systems are monumental. In short, profits can be made on government con-

tracts, but management has a responsibility to recognize the risks involved.

ADVANTAGES OF DEFENSE WORK

Why, then, with these recognized hazards, should companies go into the defense business? There are four basic reasons, which we might label patriotism, profits, permanence, and progress.

Patriotism

Patriotism today is a lot more selfish than it used to be; we might even call it survival.

In the past, when national emergencies arose, there was time to mobilize for the production of relatively simple mechanisms such as rifles, tanks, and planes. Now, however, in addition to the simple mechanisms, our defense effort requires electronic and atomic developments undreamed of in World War II. Moreover, in a cold war there is no time for mobilization; our most powerful weapon is partially mobilized industrial might. Industry thus has not only a public obligation, but also a private one to itself if it is to survive.

Profits

The management of every company, large or small, is responsible to its stockholders for making a reasonable return on the invested dollar. How can management serve the best interests of our country and at the same time satisfy the just desires of the stockholders for satisfactory earnings?

That government contracts can be profitable is demonstrated by the companies that derive virtually all their profits from defense—primarily the manufacturers of electronics and the aircraft companies. They are, however, a rather special few. In many cases they have the use of government-owned facilities and equipment, so their capital investment is very low.

Most of the other companies are more diversified, their goals are somewhat different, and their approach to defense contracts is affected by their objectives. To some, the government is simply another customer for a proprietary product or even a proprietary skill. For others, defense work is a somewhat special activity, acting

(*Continued on page* 78)

The New Leaf

Resolutions from an Executive Notebook

Resolved: To recruit the highest-caliber personnel available for my company.

Resolved: To broaden the scope of my subordinates' jobs by delegating more.

Resolved: To tell only the truth in advertising.

Resolved: To increase my efforts to know employees better.

Resolved: To watch my health by cutting out bread and potatoes at lunch.

Resolved: To explore the possibilities of overseas operations.

Resolved: To spend more time with my family.

Resolved: To become more active in community affairs.

Personnel Policies— Framework for management decisions

■ ***Ernest C. Miller***
Hellwig, Miller & Associates

Personnel policies are unnecessary restrictions on our freedom of action. . . . It's a waste of money to have written personnel policies; everyone around here knows how to handle personnel situations. . . . I don't want to commit myself in advance; I think each personnel problem must be handled on its own merits.

These are a few of the statements one might hear in a management discussion of personnel policies. They represent the attitudes of experienced and sincere managers faced with the daily problems of managing a business. Such attitudes are still prevalent—are they justified?

To begin with, let's get a working definition of a policy. A policy is a statement or a commonly accepted understanding of decision-making criteria or formulae, prepared or evolved to achieve economy in operations by making decisions relatively routine on frequently occurring problems and, consequently, facilitating the delegation of such decisions to lower management levels.

By providing decision-making criteria, a policy gives assurance that decisions made will be consistent, fair, and in keeping with the objectives and interests of the business. A policy permits decisions to be made on similar problems without repetition of the closely reasoned and expensive analysis required initially to state the policy or make the decision.

The detailed manner of applying a policy to a particular administrative context is a *procedure*. Policies are general instructions; procedures are specific applications.

The development of personnel policies becomes important to a company when—

- The organization has reached a size that requires many decision-making centers that will act consistently.
- Situations requiring decisions occur frequently.
- A record of decision-making criteria is needed to evaluate the effectiveness of the criteria as the results of decisions become known.

ONE COMPANY—MANY POLICIES

Lacking written statements of personnel policy, a large organization may have different decisions being made on similar problems in different organizational units. Rather than having no policy in such circumstances, as you might first assume, you will almost invariably find you have as many different policies as you have organizational units. Whether this plethora of policies is a problem in itself will depend on how important the policy decisions are and how extensive is the communication among members of the various organizational groups.

Approaching the question from another point of view, issuing a written statement of personnel policy does not automatically make it policy. For a policy to be issued is one thing; for it to be accepted, understood, and used as a guide to decisions and actions is another.

The emphasis is on action: only when actions taken are consistent with the provisions of the written policy can the policy be said to exist.

DEVELOPING PERSONNEL POLICIES

Generally speaking, policies are developed through making decisions and taking action on the day-to-day problems of the organization. In making decisions we analyze the problem against criteria, values, or other expressions of results to be achieved by the organization and decide on the solution that gives the optimal combination of gains and losses. As we decide more and more of these problems, all similar in general outline but different in detail, we generalize a principle that becomes a basis for future decisions. The principle, abstracted and generalized from the mass of specific decisions, constitutes the experience basis for policy statements.

The process of developing a personnel policy involves assessing its appropriateness to the organization. It must be acceptable in all the situations in which it might be used as a basis for decision—tested against each of the organization's major functions to make certain that all operating, legal, financial, marketing, and public relations considerations have been taken into account.

The policy should also be tested against community practice to assure that the reputation of the firm is being maintained at as high a level as its business and financial situation will permit. The maintenance of a competitive position in the community in these matters can assist the organization with its employees, its public, its bankers, its stockholders, and its customers, and thereby facilitate the survival and growth of the organization.

PARTICIPATION IN POLICY-MAKING

Personnel policies should be recommended by those closest to the point of decision and use—those in face-to-face contact with the employees. It is this group who, lacking a prepared policy, have been making the daily decisions that have defined the policy that already exists informally in the organization. These are the people who can best provide the information needed to draft the policy and who can best help to introduce the change in method of operation that almost inevitably accompanies the formalization of policy.

For reasons of efficiency, the personnel unit of the organization should be assigned the task of collecting information from both inside and outside the organization as a basis for the draft statement. They should also prepare the draft statement of policy for the criticism of the line managers and employees. Employees can well participate in the criticism of the personnel policies applicable to their units. This is now the case for unionized groups, but even in non-unionized areas, participation by employees can do much to insure the acceptance of the formalized policies.

Line managers act as the equivalent of a legislative body—they review, criticize, and amend the policy drafts presented to them by their staff group. The staff group does research and drafts suggested statements, but it should not set the final provisions of any policy.

Participation is the keynote to policy formulation—participation by those who will use the policy and live with the results of its application. Whether we realize it or not, our personnel policies are to a considerable extent written by the needs and desires of our employee groups. Management may attempt to guide or channel the expression of these needs and desires, but beyond that it can only delay their introduction into the organization's life. The values expressed in the policy and represented by management in its actions are values that have come from, or at least are acceptable to, the employees and the community.

A policy can only be said to exist to the extent that it guides action. Experience in countless areas has shown that changes in action or approach to situations, since such changes only come after changes in the individual, can best be accomplished by having those who must change help to determine the direction and amount of change. This is the essence of participation.

ISSUING THE POLICY

Because a personnel policy is a total commitment of the organization to act in specified ways, it can be issued only by the highest line executive of the organization. In issuing the policy he is really only approving it as drafted by the managers and employees of the organization, but since the policy will be executed by people directly

and indirectly responsible to him, it must go out with the support of his authority. In this sense, if the members of the organization play a legislative role, the chief executive officer assumes what would be the executive role of government.

Personnel policies must be known and understood before they can be fully effective as guides to action and as aspects of "company atmosphere." This means that personnel policies should receive a sufficiently broad distribution so that anyone who wishes may review the policy. If the values represented in the policy are positive reflections of the values of employees, the community, and management, there will be no hesitancy about preparing written statements to be distributed to those who will apply the policy and those to whom it will be applied.

If the values represented in the policy statement are negative or less favorable than employees or the community have indicated as acceptable, many organizations think that they can successfully hide this shortcoming by not issuing a written policy. It is unlikely that this approach will be successful; it is more likely that it will lead to accusations of management deceit. Policies become known through actions; even under ideal conditions, we can hide what we are only for a very brief period, particularly when we must continue to decide and act each day.

The form that written policies take is of consequence only so far as it helps or hinders their use. If they are gathered in one book, numbered in a way that permits revision, and indexed, the audit activity that is necessary to keep the policies current will be facilitated.

ROOM FOR EXCEPTIONS

Exceptions to policy must be permitted, since problems will arise for which an equitable solution will require a variance from policy. One objective of policies is to achieve consistency and fairness of action; we cannot permit rigid adherence to restrictive terms of a policy to prevent us from achieving equity.

To say that exceptions are permitted, however, does not mean that they should be easy to make. Exceptions should require the approval of an executive at least three levels removed from the person to whom the decision will be applied or, lacking three

levels, by the chief executive. This assures flexibility with proper control.

The nature of each exception should be stated in writing, with the circumstances that led to the exception clearly and completely stated. This makes it possible to consider all valuable experience when the policy is revised and insures that the decision has been arrived at only after thorough documentation, careful analysis, and objective reasoning.

APPLICATION AND REVISION

The application of policy is very similar to the judiciary function of governmental organization. In business organizations, the executive and judiciary functions are often in the same man. This is true even for unionized groups, at least at the lowest step of the grievance procedure. In non-unionized groups, appeals from the unfair application of a policy or for exceptions to the policy, when realistically possible at all considering the sanction system of the authority structure, are only to a higher level of authority than involved in the original decision.

In unionized groups, an appeal to an impartial arbiter is usually permitted. Perhaps, for non-unionized groups, a jury of managers or peers not in the line of authority should be considered to make more real the right of each individual to appeal an unfair decision or request a previously denied exception to a policy. Where this check on managers is not available, executives must carry out their responsibility with integrity of the highest order.

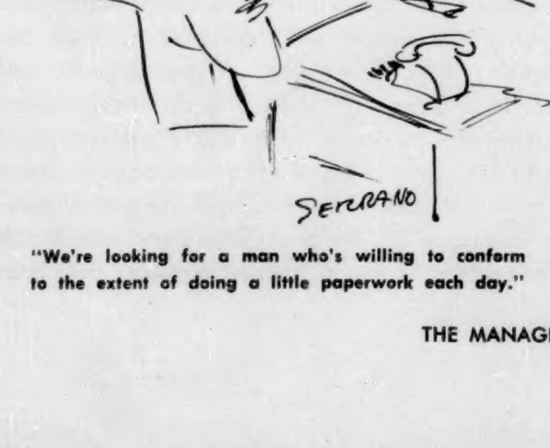
Since policies represent values and decision-making criteria, they must change as our objectives, values, and decision-making criteria change. Comments from the users, requests for exceptions, audits of policy application, and a review of the results obtained in the areas in which the policies were designed to be of assistance all help to signal a need for revision. A request that a policy be reviewed can be initiated at any level in the management structure. Administrative reasonableness, of course, requires that policies only be reviewed every three years, or after some other reasonable period.

Just as with the initial formulation of the policy, policy revisions should be participative. All those who have used a policy should be asked to criticize it and to suggest revisions they think will im-

prove it. A policy should not be revised piecemeal; each revision should be based on a complete review.

A FRAMEWORK FOR DECISIONS

Personnel policies, whether written or unwritten, exist in all organized activity. To adopt a procedure for the systematic development and communication of personnel policies adds an important degree of control over the form and substance of an organization's policy. Written personnel policies can help an organization to achieve consistency and fairness in its treatment of its employees and can make possible the economy of operations that results when the broadest possible range of decisions are made routine and easily delegated. ♦



"We're looking for a man who's willing to conform to the extent of doing a little paperwork each day."

OPTIMISTIC ORACLES

273 Top Economists Look at 1960

By George Cline Smith

Condensed from Architectural Record

THE COMMENTS of one respondent among the 273 leading economists polled by the F. W. Dodge Corporation in its latest annual survey seem to fairly summarize the sentiments of most about the outlook for 1960:

"The year ahead looks very good over-all, but with much less vigorous forward momentum than in 1959. The presidential election virtually insures a lot of 'politically inspired prosperity.' The greatest threats to business in 1960 are: (1) numerous prolonged strikes, (2) election-inspired legislation, (3) overly tight money conditions, and (4) disappointments that profits and stock prices are no longer rising, along with disappointments that gains, compared with those of a year ago, are so small. Yet, when the year is over, it still should be the economy's best in most respects."

The general expectation is for rising total output—as measured by Gross National Product and the Federal Reserve index of industrial production — accompanied by rising wages and rising prices. The economists expect the rate of increase of output to slow up toward the end of 1960, and while they were not asked to forecast beyond that point, many of the comments accompanying the

completed questionnaires expressed the feeling that 1961 might see a temporary dip.

Here are the economists' specific forecasts for ten major economic indicators:

1. *Gross National Product.* On the average, the economists expect that the Gross National Product will rise. The median estimates go upward in 1960, reaching $514 billion by the fourth quarter. There is a wide spread of forecasts, however, and the 50 per cent range (that is, 25 per cent of the replies on each side of the median) is widest for the fourth quarter of 1960, running from $501 billion to $522 billion. There is no clear "most popular" or modal figure; more economists picked $510 billion than any other number, but nearly as many chose $520 billion.

Because there is some interest in the pattern of movement expected, a special analysis of the individual forecasts was made. This analysis shows that 65 per cent of the respondents expected GNP to increase in each of the six quarters covered by the forecast (mid-1959 through 1960), while 22 per cent expected it to reach a peak sometime in 1959 or 1960 and then turn downward. Another 7 per cent saw a leveling off in the third or fourth quarter of 1960, and the remainder forecast various other patterns.

2. *Consumer Prices.* Only five of the 273 respondents predicted lower prices in 1960. The median forecast for December, 1960, is 127.0, an increase of 2 per cent over the 124.5 reported for mid-1959. The 50 per cent range of the forecasts is fairly small, running from 126.0 to 127.8 for next December.

Many of the economists noted that the index would have risen faster in the past if food prices had not exerted some downward pull, and several indicated that they expected this effect to continue. There was one contrary opinion, and since it came from a man close to the food-processing industry, it may be worth singling out: "Food, which has been a restraining factor, has just about reached a low point and will begin to rise slowly in 1960."

3. *Wholesale Prices.* The economists believe that wholesale prices in 1960 will rise, although not as sharply as consumer prices. In June of 1959, the wholesale price index stood at 119.7. The median estimate —with a fairly high degree of unanimity—is that the index will reach 121.0 in December, 1960, a gain of about 1 per cent over the 18-month period.

4. *Hourly Wages.* The economists were not asked for numerical forecasts, but were simply asked to state the direction for three categories; durable goods manufacturing, nondurable goods manufacturing, and building construction. Fewer than 1 per cent expected wage rates to go down in any of the three categories. Three per cent expected no change in durable goods wages; and 6 per cent expected no change in the other two categories. All the rest expected wage rates to go up.

5. *Industrial Production.* The economists expect industrial production to rise this year, but not as rapidly as the Gross National Product. The median forecasts indicate

that industrial production will level off in the second half of 1960. The seasonally adjusted Federal Reserve index of industrial production stood at 155 in June, 1959. The median forecast indicates that it will rise to 160 by June, 1960, and will still be at that level in December. This would be an increase of about 3 per cent over the 18-month period.

An analysis of the individual forecasts for industrial production shows that some 61 per cent of the economists foresaw a steady upward movement through 1960, and 31 per cent expected a peak, followed by a decline. Seven per cent expected a leveling-off in the second half. (The corresponding figures for GNP were 65, 22, and 7 per cent, respectively.)

The obvious question of how the median forecast could remain level in the second half of 1960 if 61 per cent of the respondents expected a steady upward movement is answered by the fact that there was a decided modal preference for the median figure of 160 in December, 1960. The large number of forecasts at this point kept the median at the same figure for both June and December, 1960, although some preference for an upward movement is indicated. The 50 per cent range extended further upward than downward, from 158 to 165 for next December.

6. *New Plant and Equipment Expenditures.* The median forecast of the economists is that plant and equipment spending in 1960 will be \$36.5 billion. This implies an increase of almost 10 per cent over the latest official forecast of \$33.3 billion for 1959. The 50 per cent range ran from \$35 billion to \$38 billion. But the total range was extremely wide, with two economists setting the figure as low as \$28 billion and 21 putting it at \$40 billion or more. The modal figure was quite high, with 37 respondents selecting \$38 billion.

7. *Total New Construction.* On the average, the economists look for a modest increase in new construction put in place next year. On a seasonally adjusted annual rate basis, new construction in the first half of 1959 ran at \$55.5 billion. The rate in both halves of 1960 will be \$56 billion, according to the median forecast.

There is not a high degree of unanimity in the forecasts. The 50 per cent range extends from \$54 billion to \$58 billion, and the total range runs from \$40 billion to \$65 billion. Twenty-five economists set the second-half 1960 figure at \$60 billion or more, while 18 picked \$50 billion or less.

8. *New Housing Starts.* The economists are far less optimistic about the outlook for new housing starts next year than they are about any of the other categories included in the survey. In the first half of 1959, private nonfarm housing starts, on a seasonally adjusted annual rate basis, averaged 1,390,000. The median expectation of the economists is that the first half of 1960 will average 1,250,000 and the second half, 1,200,000.

The 50 per cent range for the second half of the year runs from 1,100,000 to 1,300,000, with a decided preference for 1,200,000. The virtually unanimous reason given for

the expected decline in housing starts is tight money.

9. *Personal Consumption Expenditures.* The economists expect personal consumption expenditures to go up about as fast as GNP next year. In the first half of 1959, the seasonally adjusted annual rate averaged $307.6 billion. The economists' median forecast indicates a rise to $325 billion for the year 1960. The 50 per cent range runs from $315 billion to $330 billion, but the total range extends considerably further upward than downward, indicating somewhat more optimism than that shown by the median.

10. *Interest Rates.* A new question was added this year on interest rates, and all but 46 respondents committed themselves to a numerical forecast. In June, 1959, the rate was 3.83 per cent; by mid-September, it had risen to 4.50 per cent. The median forecast for June, 1960, was also 4.50 per cent and for December, 1960, it dropped slightly to 4.30 per cent. The 50 per cent range for the end of 1960 ran from 4.00 to 4.70 per cent. ♦

PRODUCT PLANNING:

Key to Corporate Survival

Condensed from Acme Reporter

WILL YOUR COMPANY still be in business 50 years from now? Two-thirds of the leading companies of 50 years ago have disappeared from the scene. In today's fast-moving economy, the company that fails to keep ahead—and plan ahead—may find itself on the scrap heap.

An important element of corporate survival is product planning: establishing an over-all policy to guide management in dropping old products and adding new ones through diversification or internal research and development.

To create a workable "product policy," a manager should determine first what the future will bring for his company and industry, particularly in the market place. The initial step is a sales forecast, based on general business trends, political and international developments, the industry as a whole, the firm's position in the industry, the trend of manufacturing costs, and, above all, the needs of consumers and users. A five-year forecast period is a useful one to choose.

Such a forecast should include, if possible, consideration of the sudden and unforeseen: a change in public tastes, a major shift in the international picture, a far-reaching technological breakthrough. What would such changes do, for instance, to sales curves? How quickly would their impact be felt? Although forecasting of this kind may be little more than guessing, it may protect a company from being totally unprepared for unexpected developments.

Once the general conditions and possible variations have been determined, the objectives of the firm should be defined.

What does a company want to accomplish by changing products or product lines? Generally speaking, the objectives are growth, flexibility, and stability. But a simple concern with any one or a combination of these three, even if weighted on the basis of the sales predictions, is insufficient. Some of the statements of goals which various companies have found useful as a basis for planning are:

1. We want to replace existing items as they become obsolete.
2. Our demand is sharply cyclical; we need to flatten it out.
3. We should be utilizing waste or by-products.
4. We have management, marketing, or production resources we are not using fully.

Acme Reporter (1959 Series—Number 2), The Association of Consulting Management Engineers, Inc.

5. We should be spreading our risk by reaching into several markets.

6. We foresee a change in government strategy, and we want to be prepared to shift from defense work.

Finally, a look at company resources is called for. How much money is available or obtainable? If a large amount of cash is within reach, new products or functional changes which demand heavy investment are appropriate; if it cannot be had, a firm has to content itself with items that do not require much by way of new facilities. It is interesting to note, incidentally, that even though a large concern has the capacity to take on low-investment projects, experience indicates that it will do better to leave such ventures to the small operator. The large company's heavier overhead and reduced flexibility may make it a poor competitor in a field where sales are small or margins are slim.

Another significant resource to study is the company's distribution channels. Too often, production-oriented executives assume that salesmen can take one "one more product," or that the best test of a new product is whether or not it dovetails with available manufacturing facilities. Yet some specialists feel that the most important factor in launching a new item is to make sure that it can be worked into existing marketing machinery. Often the merchandising and distribution system is not nearly so flexible as top managers believe.

Once this material has been assembled—forecasts, objectives, resources—a pattern begins to emerge. A series of requirements for products and product lines, varying in importance, can be developed as company needs and capabilities become more clear. Some firms have found it helpful to draw up two lists: a list of "required" characteristics for a product and a list of "desirable" ones. Such a listing might look like this:

Required Characteristics (in order of importance):

Can be sold through current marketing channels.

Will counter our present cyclical trends.

Does not require large investment.

Will give us at least 20 per cent of market.

Desirable Characteristics (in order of importance):

Will take advantage of current unused manufacturing capacity.

Will tie present customers to us more closely.

Will utilize present raw material suppliers.

Will give us a broader product base in case of unexpected early obsolescence of present items.

Will stimulate sales of existing products.

Takes advantage of and will strengthen brand image.

Requires low-precision production.

A policy like this can be stated as a check list, a set of questions, a formal policy statement, a series of brief definitions, or in various other ways. Some firms have prepared a comprehensive statement of their product policy, and supplemented it with a check list for ready use.

The policy itself, however, is not enough; it has to be implemented. In putting the product policy to work, a number of companies have found

it advisable to ask themselves first, "Is this a situation in which product is the central issue?" With all the current popular talk about new products, diversification, and functional features, it is all too easy for a company to assume that one of these will bring new profits. Actually, cost control, greater efficiency, reshuffling of executives, or new marketing methods may do it better.

When top management has concluded that new or changed products —acquired either through diversification, purchase, or internal R & D— are called for, the search begins. The product specialist would do well to start off with as wide a selection of ideas as possible, narrowing the list down steadily by matching it against the criteria provided by the policy. Stiffer tests have to be applied at each step, until finally a handful of changes or products remain as candidates.

At this point, an even sharper analysis, in terms of the criteria, is called for: To what extent does product X fit the policy standards? Does it meet the demands of the more important standards more fully than it does the less significant? How much more? Finally, some sort of test of return on investment might well be applied in an effort to make the final product decision.

The development of new features or improvements for existing products calls for equally rigorous thinking. Even minor changes can expand or shrink a manufacturer's share of the market and can create an impact that may or may not be in the best interests of the company as a whole.

Assuming, of course, that it is well engineered and will perform as advertised, a new feature of general interest will soon be duplicated by the competition. This may well weaken the feature's strategic selling value to the smaller manufacturer, while a larger one may nevertheless consider it essential for maintaining product leadership.

On the other hand, added devices of special interest to one group in the general market can be of great value to the smaller manufacturers. For example, a typewriter equipped with various accent marks would be in great demand by a limited number of people writing in foreign languages. Adding keys of this type might prove to be a wise move for a smaller concern, but bad economics for a big company.

In short, features, too, have to be judged according to a look at a company's future prospects, resources, and objectives.

The schedule of action in product planning should provide for follow-through. In full form, it might contain these steps:

1. Start out with specifically defined objectives. These reduce the area of search and tend to make the entire program more efficient.

2. Begin with the company's existing business and work from there. The more a product differs from the product the company knows best, the greater the risks.

3. Make sure your new-product planning is customer-oriented, rather than factory-oriented. Study and validate all basic assumptions before making extensive commitments. If the plan is a long-term one, recheck the facts from time to time to avoid ob-

solescence through market or competitive change.

4. Carefully define and recognize the differences between present operations and the business which the company is entering with the new product.

5. Maintain a careful schedule. Provide adequate time for market planning and market testing. Make your moves as slowly and deliberately as you can—while still keeping ahead of competitors—to minimize risk.

6. Check results against forecasts as you go along, and take appropriate action when indicated.

Some managers have expressed concern that a formal policy might limit the creativity of employees and squelch the flashes of intuition which have led to so many useful items. Actually, the reverse is true. Employees with ideas will have some guidelines to go by, and they will know that final decisions will be made according to an impartial yardstick, not by snap judgment.

Furthermore, the greater range of possibilities and the orderly examination of them which the establishment and implementation of a product policy encourages are more likely to turn up the best answer to the product problem. ♦

Teen-age Charge Accounts Get a Tryout

IF THE NEW CHARGE PLAN now being tested by Sears, Roebuck and Company in Atlanta, Ga., and other cities pans out, new inroads may be made in the $6 billion teen-age market. The company, which operates 728 stores throughout the nation, is now testing out a charge-it plan for teenagers (14 to 19 years) who have regular allowances or part-time jobs.

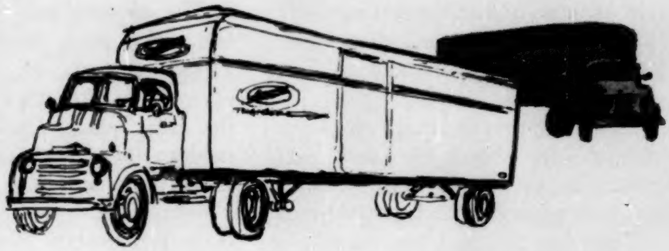
Says a spokesman for Sears: "This early introduction to installment buying would be not only a welcome convenience to young people, but it would also be valuable training for them in budgeting expenditures and in meeting financial obligations." And, of course, retailers who garner shopper loyalty early will have a real edge in the next decade when today's teenagers will be spending heavily to set up their own homes.

Teenagers' pocket money today is impressive compared with the scanty allowances of a generation ago and reflects the bounty of a prosperous nation. A survey of 5,000 junior and senior high school students by *Scholastic* magazine reveals that:

- Senior high school boys spend an average of $7.48 a week and save $4.03; they get more than half of their income from part-time jobs.
- Senior high school girls depend mainly on allowances from parents for the $4.98 they spend and the $1.87 they save.
- Students in junior high schools depend primarily on allowances for their income. Boys spend $3.67, save $1.76, and girls spend $3.22 and save $1.19.

Increasingly, companies are eyeing these growing markets in which income is tax free and spending largely discretionary.

—Thomas Kenny in *Dun's Review and Modern Industry* 10/59



Moving Day for Industry

By John A. Conway

Condensed from Newsweek

WHEN Oliver Unger, president of National Telefilm Associates, walked into his office one Monday recently, everything was as he had left it the previous Friday—except the address. On Friday, his office was in New York. On Monday, it was in Beverly Hills. During the 61 intervening hours, NTA's headquarters—30-odd employees, 75 business machines, 12 tons of promotional material, 151 desks, and 450 files—had been flown bodily in two air freighters from New York. A jet plane brought Unger's party of 60 adults, 29 children, 3 dogs, 2 goldfish, and 1 parakeet. A fleet of vans meanwhile hauled the worldly goods, including automobiles, of 30 households.

Spectacular as it was, NTA's cross-country shift was but one sign of the restless surge that has rewritten industry's address book in the past few years. The postwar boom, with its waves of expansions, mergers, consolidations, decentralizations, and diversifications has put business on the road and the moving industry into high gear. In 1958, for instance, Allied Van Lines, a co-op of more than 700 local movers, grossed more than $60 million. Last year, it ran 20 per cent ahead of that. Bekins Van & Storage of Los Angeles, one of the oldest and biggest U.S. moving companies, racked up a $27 million gross last year. "We're part of the greatest migration in history," says 49-year-old president Daniel P. Bryant.

The bulk of the movers' work (which yielded a gross of some $800 million in 1959, according to Thomas R. Kingsley, general manager of the Movers Conference of America) still is household goods, but commercial hauls are keeping pace. Some big firms like Weissberger Moving & Storage of New York now do as much as 65 per cent of their business in this field. Industry also foots a large

share of the household-moving bill: NTA's total bill—including employees' parakeets, dogs, and goldfish —was around $170,000.

Businessmen on the move also have wrought just about the only real changes in the moving industry since the truck replaced the horse. "Since furniture was invented, two men have had to pick it up and carry it," explains Martin Hold, research and development director for Bekins of Los Angeles, which handles an average of 1,000 moves every day. Standardized office equipment has changed this.

"Thirty years ago, you'd look the place over, call in the boys, and haul it away. It's different now. You go over blueprints and everything is organized," says Earl Bogan of Aero Mayflower Transit Co.

Organization is vital because of the split-second demands made by a business changing its address. The biggest, most complicated moves are planned so that the client doesn't lose a single working day or, sometimes, an hour. Recently, for instance, 80 Weissberger hands in New York shifted more than 4,200 pieces of American Cyanamid office gear to new quarters. The 150 van loads actually rolled a distance of only one city block, but Weissberger estimater Otto Neu-Schulz plotted the move for four weeks. The reason: The job had to be done in two weekends. American Cyanamid's office services department manager, W. J. Mottley, says: "Besides the out-of-pocket cost of lost working time, which could run to $12,000 a day, there would have been the incalculable loss due to our inability to service customers properly."

The plotting and planning turn a big commercial move into a landlocked version of D-Day. Desks, chairs, hatracks, wastebaskets, and all the other paraphernalia that fill the modern office are tagged. A colored stripe may designate a certain floor; a number will guide a dolly-load of desks to a certain chalk-marked area; another will spot the exact location of each piece. For NTA's airborne shift, the mover needed such things as 24,000 numbered tags, 3,000 cartons. and 600 barrels.

Business haulers have to be long on ingenuity. One New York mover, for example, hit only one major problem when he made a $60,000 move for Foster Wheeler Corp. (boilers, atomic reactor components, steam generators) from lower Manhattan to midtown. The problem, however, was a 12-foot-long computer that bulged bigger than any elevator in its new home and could not be hauled up the shaft (a favorite gambit in such spots) because of special wiring in the shaft. To get the monster to its new lair, the mover had to bring in a 150-foot crane, pile a ton of sand on a tenth-floor setback (to protect the roof), and then hoist the computer through a double window. Moving it cost Foster Wheeler $1,100.

Sometimes, of course, nothing works. When French automaker Renault moved its Manhattan quarters, the movers lugged a huge, specially built, one-piece conference table 28 stories after it refused to fit into an elevator. At that point, with seven floors still to go, an uncharted pipe blocked the stairway. The final outcome: Back down the 28 flights—and a new smaller conference table.

While movers wrestle with these physical problems, the clients have headaches of their own. Last May, the Flick-Reedy Corp. (hydraulic and pneumatic cylinders, special ceilings) moved from a 46,000-square-foot plant in Melrose Park, Ill., to a 220,000-square-foot layout in Bensonville, 12 miles away. The week-long, $32,000 haul moved an $860,000 inventory, plus more than $1 million worth of machinery, with a loss of exactly one hour of production. But the real task, president Frank Flick says, was preparing his 300 employees for their new location.

To cushion the shock, Flick recalls, "we prepared our people over a period of a year and a half to two years. We had a series of six lectures. We showed slides. We told them exactly what was going on."

Such kid-glove service is also offered by the movers themselves; in fact, it is the moving man's chief selling tool. With rates prescribed by either the Interstate Commerce Commission (for hauls over state borders) or by local authorities (for intrastate moves), moving charges are basically the same. Teamsters man all the vehicles, so labor costs are another constant. About all the mover can count on to drum up business is salesmen—and satisfied customers, like NTA president Oliver Unger. "This is the most thorough move I've ever seen," said Unger of his 3,000-mile leap from New York to Beverly Hills. "The parakeet made it without getting a cold and the goldfish weren't even ruffled. . . . . The movers even brought the old papers in the wastebasket." ♦

"Life's getting too complicated."

Some Do's and Don'ts for TEST MARKETING

By John E. Flynn

Condensed from Sales Management

TODAY'S RETAILING is characterized by a predicament of abundance. Supermarkets with 5,000 to 7,000 items already on their shelves found some 6,000 new items clamoring for admission this year—and there isn't room for everything. Even if the 15,000-item giant supermarket should become the norm, the abundance of products will still mean that, as a Kroger executive pointed out, a chain will try to remove a slow-moving product every time it adds a new one.

Faced with this need to offer proved products, harrassed marketers are using test marketing to learn, through a careful pilot study, whether a product or program will be successful on a national scale. As in all useful techniques, there are do's and don'ts that successful practitioners observe. Here are six of the do's:

1. Do establish specific test objectives and development goals for a perfected product having adequate distribution in the test market.

Do we need an absolute or relative measure of sales? Should we audit all brands in our product line? Just the leading brands? Only our own? What should we specify for audit frequency and duration? Length of base-sales measurement before test? These and kindred questions can most accurately be answered *after* you have pinned down (a) the objectives of the test, (b) the manner in which you intend to use the data.

It is a waste of time and money to test an imperfect product. Laboratory and consumer research *should* eliminate imperfections. However, over the years, store tests have revealed a bleach that corroded the package; a cosmetic that solidified in the bottle; a glue that wouldn't remain in its tube; a shampoo that separated; an instant food that wouldn't pour from the container.

But even a perfected product can't be tested if it isn't in the stores. Whether you're testing a new product or the advertising or merchandising for an established seller, it's advantageous to conduct a complete distribution study in a proposed test area. Take any steps necessary to insure adequacy of distribution before committing yourself to the test city.

2. Do be sure that your test market is suitable for your product, characteristic of the total market,

Sales Management (October 16, 1959), © *1959 by Sales Management, Inc.*

typical in problems of securing distribution, and representative in number and strength of competing brands.

There is no "typical" test market. Notwithstanding, some markets are more suitable for testing than others —for your product. If the test is restricted to one city, it is best to select an area that duplicates your national market share and national distribution pattern. Working with multiple testing points, it is well to aim for representation by north, south, east, west; city-size groupings; population characteristics; and so forth.

Don't underrate competition. Food marketing executives will remember that seven new Dromedary cake mixes introduced by National Biscuit Co. in 1955 won a respectable share of market. But by fall 1957, profitless competition forced even this accomplished marketer to drop five of the mixes. To guard against unrealistic evaluation, select markets where competitive strength is at least equal to that in the national pattern.

3. *Do pick test markets that are isolated but have adequate newspaper, TV, radio and outdoor coverage; use control areas; match your markets according to factors important in the test.*

To prevent distribution leakage, it is desirable to select isolated test markets—usually, cities with 50,000 to 250,000 population. Since test markets should reflect what may happen nationally, there must be media coverage that will typify the national facilities.

A major problem in test marketing is to isolate and accurately measure the test factor. On established sellers, a base period of sales (prior to the test) is essential in evaluating results. Control areas, where the test factor is not present, will likewise allow the marketer to more accurately reassure campaign effectiveness.

Matching test markets by population characteristics, market share, distribution patterns, or other significant sampling factors is not easy. But it is one of the most efficient ways to isolate the factor being tested—copy, media, most effective weight of advertising, etc. If you lack sampling controls, your results may be shaped by the characteristics of the markets, and not by impact of what you are testing.

4. *Do pick markets where the dominant chains will cooperate, and where local warehouse shipments are concentrated within the area.*

Cooperation of the dominant chains is essential in any market test, but especially in the grocery field, since a high percentage of total sales is accounted for by the dominant chains in many markets. Some chain stores will not cooperate with any organization on store audit tests, but it is no great problem to select markets where the dominant chains will cooperate.

For a new product test, it is also important to pick markets where warehouses of the major chains ship the bulk of their merchandise to outlets in those areas. When test merchandise is shipped outside the test area—where there is no advertising support, and other test stimulants are absent—inventory pile-up will result, to the detriment of your trade relations.

5. Do measure, in your test markets, the movement of all indicative products, while you simulate the marketing, advertising, and sales effort you will apply nationally.

If you are going to sell through brokers on a national scale, sell through brokers in the test area. If you plan to use TV spots and newspapers on a national scale, do the same in the test area.

Salesmen sometimes think the market test is an assay of their abilities, not of the product or promotion. Let your salesmen know what is going on, but impress upon them the importance of detachment and objectivity. That same objectivity makes mandatory the selection of test markets where retail stores of various types and sizes are sufficient in number to provide an approximation of national retail conditions. By including the movement of all products in the field—or at least the leading sellers—you can determine whether you're increasing the total market or simply taking business from competitors.

6. Do test long enough to get meaningful results; be organized to follow up promptly, once your test is concluded.

Frequency of purchase is the main factor in determining length of test. A cigarette marketer can get significant results in a 30-day test; the furniture polish manufacturer may need one year. Usually, a test market operation will run six months. This will allow time to establish a base period of sales; sufficient exposure period for the new product, promotion or other test factor; and finally, residual or post-test time, when test impact will recede to the level that can be anticipated nationally.

Good coordination at all levels of company operation will pay off in exploitation of test marketing. This is particularly true in a highly competitive business. Often, your rivals will be gathering sales data to judge the success of whatever you are testing. It's therefore common sense to take fullest, fastest advantage of any test-market success, before your competition develops countermeasures.

On the other side of the coin, here are six don'ts that should be kept in mind:

1. Don't expect success from a product that doesn't offer a demonstrable advantage, consumer-approved before market test, and confirmed by repeat purchase during test.

Stack your entry against the leading seller in the field in a blind product test involving representative consumers. Unless the new product shows at least equal acceptance, the chances are it won't sell successfully.

Even if the new item receives approval in the blind product test and goes into test-market distribution, liaison should be maintained with a representative sample of consumers who have bought the product. If repeat purchase is high and your market share favorable, you have a seller that should survive in broader marketing.

2. Don't overburden your test with too many variables.

Beware the tendency to combine —all into one—a new product test, media test, weight of advertising test, and merchandising test. Reams of data will sprout, with scant interpretation or use. A good rule to

follow is this: Determine which factor is the most important; get the answer to that; then proceed to develop answers to the next most important question.

3. *Don't test in an area that is overly favorable to you.*

Test-market findings usually have to be marked down, for realistic forecast of national sales: No matter how objective a marketer tries to be, more time and attention will be given to the test-market operation than can be extended nationally.

Therefore, deliberately select markets that are less favorable than those in the national pattern. Your test-market findings will have a built-in discounter, providing a more realistic projection.

4. *Don't overspend in test cities—on promotion or on sales effort.*

An easy way to inflate your test findings is to spend proportionately more money in the test markets than you can afford nationally. To guard against this, set up a hypothetical but realistic national promotion budget. Then, allocate a proportionate amount based on the test markets' percentage of national sales for your product type. A promotional-expense-vs.-sales formula that will not work on a test-market basis can hardly work out on a broader scale.

Similarly, figure what sales support you can give the new item on a hypothetical national scale. Then insist that your salesmen deliver just that effort in the test-market tryouts.

5. *Don't advertise the test in a nontest market.*

It's as important to limit the reach of test-market advertising as it is to control the distribution of the test product. A basic approach is to strive for isolated markets (good examples are Spokane, Syracuse, and Wichita). But that approach isn't always possible; sometimes it's very impractical. Certainly, however, you should study audience distribution of local newspapers, TV, and radio, before approving your test-city list. You don't benefit when retailers in spill-over markets receive calls for products they cannot stock.

6. *Don't pick a test market where a competitor is testing or where a strong promotion is being staged for an established product.*

To launch a test in a market where a competitor is testing can only produce atypical results. The competitive test will distort brand market shares so much that it will be impossible to get realistic data for your product—or your competitor's.

By the same token, strong competitive promotions can so disrupt market shares in otherwise good test markets that the data developed for you are worthless as a national indicator. ♦

YOU SELDOM GET WHAT YOU GO AFTER unless you know in advance what you want. Indecision has often given an advantage to the other fellow because he did his thinking beforehand.

—Maurice Switzer

Every company runs into troublesome situations, and it pays to develop men who know how to handle them . . .

How to Grow Your Own Trouble-Shooters

By Nathaniel Stewart

Condensed from Nation's Business

BY CULTIVATING its own crop of trouble-shooters, a company can reduce costs and waste, launch new systems and procedures more smoothly, and free staff specialists for concentrated work in their own areas. Since every company has its troublesome situations, it pays to have dependable performers available to study a problem and to follow through to its solution.

To develop trouble-shooters, a company should:

1. Know the qualities of good trouble-shooters and be able to select the right men for the job.
2. Guide them in what to do—and what not to do—in trouble shooting.
3. Be able to appraise the completed job.

Among the trouble-shooter's key attributes are these:

Openmindedness. He must approach the problem with a desire to become thoroughly familiar with the systems and operations involved. He avoids any prejudgement of the situation and of the department, its people, or the value of its contribution to the company.

Management-consciousness. He is thoroughly informed on company objectives, policies, planning, and control. He is conscious of the management issues relating to the problem and its solution.

Insight. The competent trouble-shooter has the capacity for getting the feel of a situation, for sizing up its complexity, and for determining whether the problem is gradually solving itself or getting worse. He shows a sense of perspective in relating company-wide objectives with departmental ones, and in seeing the interdependence of organizational units.

Sense of pace. After he has sized up the trouble, he understands when to crash through in record time, when to pursue a moderate pace, or when to move slowly.

Moral courage. Although the

Nation's Business (September, 1959),

trouble-shooter is expected to exercise tact, he has the moral courage to call the shots as he sees them. He may have to call for compliance with specifications, elimination of goldbricking, discontinuance of a little empire that has been quietly built over the years, or refresher training of certain personnel.

Communication skill. He has a high tolerance point in consulting, exchanging views, and asking questions, and he keeps the communication lanes open between himself, the specialists, and the manager involved. Important too, is the extent to which he can tap the informal organization through an understanding of its traditions and feelings.

Ethics. Ethical behavior in respecting confidential reports, avoiding personal abuse, and giving credit where due is expected of the effective trouble-shooter. If personal gain and recognition of his efforts are warranted, they will come from his superiors and not through design on his part.

Diagnostic skill. An effective trouble-shooter, having investigated the situation and assembled the facts, classifies them into meaningful units. Then he uses his knowledge of diagnostic tools and his analytical abilities to isolate and verify the right problem and its real causes.

In many instances, trouble-shooting can be taught formally or informally within the company itself. The man selected can make use of management case studies, and can be given executive coaching, special assignments to tackle emergencies, committee positions, and job rotation.

Once the organization has picked its trouble-shooter, he must learn some important do's and don'ts.

He should:

- Be completely aware of how far his responsibility and authority is to extend in the mission.
- Respect schedules and budgets.
- Be patient—the situation probably didn't grow overnight and will not be resolved immediately.
- Plan his strategy ahead of time.

He shouldn't:

- Indulge in pep talks and morale-boosting—that's the job of the manager of the unit concerned.
- Overemphasize his authority.
- Create new problems in trying to solve the existing ones.
- Take over to the extent of preempting the detail work of the personnel concerned.
- Belittle, blame, or castigate the people or the unit involved.

The trouble-shooting assignment should be approached logically and in sequence from start to finish. The well planned action includes exploration or research; gathering the information; isolating the problems; developing its solution; presenting the proposed solution; gaining its acceptance; installing it; and following through with its implementation.

In trying to correct a problem, a trouble-shooter should not tamper with basic company policies. He may, in his proposed solution, indicate the need for a change in policy, but the decision to modify belongs to others in the chain of command. The trouble-shooter should not disregard existing policies and encourage others to do so in his eagerness to finish the job in the shortest possible time.

A trouble-shooting job well done

has certain characteristics. Among them are these:

- The planning is such that the real problem and its causes are definitely attacked.
- An acceptable and workable solution is developed, taking into consideration such specifics as facilities, manpower, relationships, and economy.
- It is well timed with seasonal factors, workload variations, or similar influences.
- It is integrated as much as possible with current or pending allied developments.
- The completed task leads not only to correction of the situation but also to sustained good relations among the managers concerned. ♦

U.S. Productivity—Falling Behind?

ALTHOUGH AMERICA'S ECONOMY grew during the past century at a rate unparalleled in history, this pace has slowed during the 1950's to the point where—in terms of annual rate of economic growth—the United States today stands almost at the bottom of the list of major nations. This was the opinion of a panel of 11 leading economists, in a forum conducted recently by the National Industrial Conference Board.

In releasing the results of the forum discussion, John S. Sinclair, president of the Conference Board, said, "We face a serious challenge to our capability for future growth. The restored economies of Western Europe have not only grown more self-sufficient, but they also compete more vigorously for a larger share of world markets. Their rates of growth are significantly higher than ours were in the fifties, as are those of Soviet Russia and other major powers. In fact, per capita output in the United States has shown little if any rise during the past five years, in striking contrast to the vigorous growth of the rest of the world."

Behind this sobering conclusion, the forum members agreed, is the fact that in the United States we have continued to preserve or expand the leisure of the individual while raising his material standards. This may be one factor among those contributing to a comparatively lower rate of economic growth in this country during the past decade. For generations, the forum members noted, Americans have made a similar choice—preferring more leisure to more goods—and perhaps something in the U.S. structure of wage and capital costs must give in order to improve our competitive position in world markets.

Some of the higher rate of economic growth in Western European countries or in the Soviet system is attributable to the low base from which they started as compared with ours, while some is due to severe physical shortages in those countries after World War II and the resulting longer "catch-up" period. But many of the forum members believe that economic growth in the decade ahead may well continue to be more rapid among the other world powers than in the United States.

—National Industrial Conference Board 11/23/59

THEY KEEP TAXPAYERS HONEST

Condensed from Business Week

ARE WE becoming a nation of tax dodgers? Former Commissioner of Internal Revenue T. Coleman Andrews thinks the answer is yes. And many people today find it easier to believe in the Abominable Snowman than in a citizen who pays his taxes—voluntarily and in full—so he can sleep better.

But more confidence in the honesty of the taxpayer is expressed by the present Commissioner of Internal Revenue, Dana Latham, who recently offered testimony before Congressional committees on the state of taxpayers' morals. Asked for his estimate of the extent of tax evasion today, he replied:

"We do not believe it is any worse today than it has been in the past ten years." He feels it is significant that although total tax collections have doubled since 1949, deficiencies collected by the Internal Revenue Service from taxpayers are no larger now than they were then.

Congress recently granted the service $[illegible] million more than in 1958 to enlarge its enforcement units. Latham will use the new money to hire 100 additional revenue agents—the men who give tax returns the first study for indications of possible cheating. He'll also dig more deeply into suspected returns, and is pushing programs to make wider use of computers and automatic office machinery in enforcement.

These are not the actions of a man with boundless faith in taxpayers' good intentions. But Latham, and the key men in the service, see enforcement from a special point of view.

The federal revenue system de-

pends on a system of voluntary tax assessment. Last year, some 93 million returns were filled out by taxpayers, covering personal income and excises. Each return bore a statement of taxes owed. The total came to $80 billion. Out of 60 million personal income tax returns, only 2.3 million were audited, or less than 4 per cent. This meant that to the trained eyes of the revenue agents, 96 per cent of the returns appeared to be honestly prepared. From the suspected 2.3 million, there were only 1,200 indictments for fraud.

Opportunities for tax dodging have enormously increased in recent years. Millions of taxpayers have moved into the $7,500-and-up brackets, where the possibilities of chiseling are greater. In these brackets, most taxpayers itemize their deductions, rather than take a straight 10 per cent deduction. Special provisions have been added granting deductions for sick pay, medical costs, baby sitters, dividend income, and the like. The legal definition of capital gains has been greatly expanded. Every change of this kind offers more ways for the taxpayer to cut corners.

The mushrooming use of credit cards adds another major device for evading taxes. Tax collectors are certain that personal and family living expenses will be thrown in with legally deductible business expenses.

Latham estimates that several billion dollars of revenue escape the tax collectors through unreported income alone. The best weapon the service has in locating unreported income is a knock-on-every-door type of canvass. Recently in the Philadelphia area, the service made a special check of businessmen and farmers. Results are secret, but it is known that a particularly high percentage of farmers were found not to have filed returns at all. In the country at large, it has been unofficially estimated that some 20 per cent of farmers with taxable income have never filed.

Increasing reliance is being placed on electronic office equipment. Machines already verify the arithmetic on every return. They turned up some $1.5 billion in additional taxes due last year.

In a recent speech to state tax commissioners, Latham disclosed a long-term goal: a system of records so extensive that the complete tax history of everyone who ever filed a return can be made readily available on tape.

Exchange of more information with state collectors is another IRS goal. States could put sales tax information from businesses onto tapes, for example, and the tapes could then be fed into U.S.-owned machines. The result would show whether business income had been reported correctly.

At every tax-paying period, revenue agents are deluged with complaints that businessmen are getting away with unjustified deductions. Taxpayers arrive bearing frayed newspaper clippings about the owner of a dairy who deducted an African safari as an advertising expense.

An effort to crack down on business expense deductions through new legislation was made in the Senate Finance Committee recently. It was backed by a group of senators who sought to bar deductions for expenses in night clubs and other "places of

entertainment." The bill was opposed by Latham and the Treasury on the grounds that it would pose too many administrative difficulties. For the effect on taxpayer morale and to forestall Congressional action—if for no other reason—the issue of business expenses will be near the top of the service's problems for a long time to come.

The problem of taxpayer morale looms large in Latham's mind, and in that of every observer of the U.S. tax system. At some point, overzealous enforcement could wreck the system by stirring up a widespread taxpayer revolt, and nobody knows just where that point is. Congress would rather err on the side of too little enforcement than too much.

"Our voluntary assessment system must be preserved at all costs," Latham sums up. "The way to preserve it is to convince the people that they must pay their taxes according to the requirements of the law." ♦

"The trouble with you is that you're tired. You've been thinking too big."

SMALL COMPUTERS do a big job for industry

By Scott Schmedel

Condensed from The Wall Street Journal

BUSINESSMEN are discovering more and more jobs which small computers with modest electronic intelligence can do nicely—and much less expensively than the "giant brains" can.

At Esso Standard Oil Co.'s big Baton Rouge refinery, an electronic computer the size of an office desk has taken over the supervision of mixing the six million gallons of gasoline which pour out of the refinery daily. The machine selects the most economical blend of eight or more fuel components. The $49,500 computer has supplanted a data-processing system which costs ten times as much.

The small computers cannot do as much, of course, as the big ones. For one thing, their memories are more limited. Typically, the memory of a small computer holds up to 4,000 entries, compared with 32,768 retained by the big $2.6 million "709" computer of International Business Machines Corp. For a sizable company, only a big computer can juggle the voluminous data involved in such major business chores as inventory control and general accounting. But small computers are being used for such jobs as preparing loan data, budget reports, bills, and payrolls.

Among companies in the small computer field are Royal Precision Corp., IBM, Bendix Aviation Corp., North American Aviation, Inc., and Burroughs Corp.

The modest initial cost of the small computer is perhaps its main selling point for small concerns. Example: The National Bureau of Casualty Underwriters in New York City, a trade group with a limited budget, uses a small computer to revise premium rates for casualty insurance, such as automobile liability and burglary coverage.

The 300 insurance companies serviced by the agency endeavor to increase rates as soon as claim statistics support such a move. Since switching from manual calculators to the computer, National Bureau actuaries find that annual requests for rate revisions on auto insurance can be filed with state insurance departments from 30 to 60 days earlier than before.

Moreover, say the actuaries, the National Bureau has been able to offer statistical analyses never before possible, because the computer has released clerks to work on these new projects.

The large corporation is also among the customers for small com-

puters. Du Pont, for instance, has leased a dozen of them for scientific data processing. The combined monthly rentals of the small machines probably total less than $18,000, compared with perhaps $25,000 for Du Pont's Univac, a big computer made by Remington Rand division of Sperry Rand Corp.

Du Pont estimates its use of computers has jumped eight or ten fold since the small computers were installed. "We tried sending data from test labs, like the one at Waynesboro, Va., to the central Univac at Wilmington, but we had priorities to buck," explains Dr. J. D. Grandine, a Du Pont senior research chemist. "Our little analytical problems were used to fill the cracks between the big engineering and accounting jobs, and the best we could get was overnight service, even though Univac did our job in seconds."

"With a small computer spotted right at hand, we can get our answers in 10 minutes, and the research man is able to keep his project moving right along," Dr. Grandine declares.

Other big companies which have giant electronic brains are finding a variety of additional uses for the smaller machines. General Electric Co. has put its $49,500 computer to work as part of its development program for marketing executives. It masterminds a "game" in which the players test their marketing strategy on a hypothetical industry.

The rules call for forming four teams, representing four competing companies. For a day, the teams set and reset prices, production rates, and expenditures for product and market development on the basis of periodic reports from the computer. The computer provides industry totals and lets each company know how much it's selling and earning each quarter.

Although larger computers have been employed for the same purpose, the small machine does the job at low cost. And, being portable, it permits the game to travel easily to GE plants in other cities.

One disadvantage of a big computer system is the time lapse between order and delivery date. This gap may run as high as 18 months, during which the customer must carefully prepare an installation site and meticulously adjust his operations to the new process. A small computer can be in place in 60 days and conversion to its use from manual calculating is much simpler.

Relative simplicity has other advantages, too, as Esso Standard has discovered at its Baton Rouge refinery. "We were using a medium-scale machine that was just too big to justify itself," says Jim Kimball, an engineer in the methods development and programing department. Besides an inexpensive installation which could compute the most economical combination of ingredients to produce gasoline of a certain octane rating, the refinery also wanted to be in a position, day or night, to quickly refigure proportions whenever it shifted to another grade of gasoline.

But the medium-scale machine "wasn't available at night or on weekends unless we could get a computer operator on the job," Mr. Kimball says. Now, almost anybody in the

blending office can learn to feed in the statistics and punch the right button to work the problem on the small computer.

With demand brisk, more small computers are in the offing. Relatively modest development costs are encouraging computer manufacturers to design and produce new machines, and the increasing use of transistors will tend to make small computers less bulky than ever. ♦

Ten Ways to Cut Office Overtime

REPEATED—AND COSTLY—OVERTIME in the office means that man-hours may be out of balance with the workload, methods may be out of balance with the volume of work, or both. Here are ten ways to reduce such overtime:

1. *Scheduling of Work.* Each report turned out in the office should be considered as one of many. Try to establish a schedule of production for them.

2. *Work Priorities.* Assignments often compete with each other for completion at the same time. A system of priorities will reduce conflicts and man-hour requirements.

3. *Elimination of Duplication.* One company checked a customer's order and the resulting invoice five different times. By analyzing procedures, duplicate efforts can be avoided.

4. *Elimination of Unnecessary Detail.* Conditions change, and so does the need for particular reports. Periodic studies of clerical duties can eliminate nonessentials.

5. *Training for Increased Efficiency.* Proper training—a planned program of teaching—can reduce learning time and, later, time needed to complete the task.

6. *Use of Part-Time Workers.* When unpredictable or uncontrollable variations in the volume of clerical work exceed the regular staff's capacity, a company can use part-time workers or commercial service companies which provide temporary clerical personnel.

7. *Mechanization of Operations.* The work load can be lightened and schedules maintained by the proper use of machines, such as dictating equipment, punched-card systems, and facsimile reproduction equipment.

8. *Flexibility of Personnel.* When one group of employees puts in overtime while other groups carry only a partial workload, it means your office workers are too inflexibly specialized. Many companies train certain employees to do tasks related to each other. These employees have regular specialized assignments, but they can be rotated to other jobs where additional man-hours are required.

9. *Work Distribution.* Many office workers do not carry their fair share of the load. The first step toward correcting this situation is analysis of the workload distribution.

10. *Use of Incentives.* Only an estimated 60 per cent of potential production is obtained in the average office. Financial incentives can tap the productive reserve and reduce overtime.

—*American Business* 9/59

Stopping EMPLOYEE THEFT Before It Starts

By Norman Jaspan

Condensed from American Business

MANY EXECUTIVES find it hard to believe that they may have dishonest employees, or that management itself can create the atmosphere in which an employee will want to "get away with it."

Yet insurance company statistics reveal that employees are stealing more than four million dollars in cash and material every working day—or more than one billion dollars a year!

How can you stop employee thefts? One answer is taking preventive measures without waiting for symptoms to appear or for losses to show up in the books.

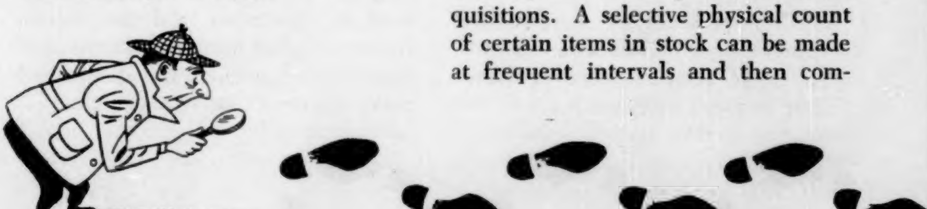
Here are several specific guideposts that may help your company prevent thefts:

Establish Dual Responsibilty. Work should be subdivided so that no one employee entirely controls any record or transaction. Check and review procedures should be established, in which an employee, without duplicating effort, verifies the work of others in the course of his duties. Examples of this principle include:

1. Prohibiting employees who maintain the inventory records, or employees primarily responsible for inventory, from participating in the annual physical counting of inventory charged to them.
2. Barring persons who approve payments on invoices from participating in the actual receipt of supplies or materials.
3. Periodically rotating clerical and supervisory personnel to other job assignments.

Keep the Nature of Controls Secret. Employees should know of the existence of controls, but should not be aware of specific checks and reviews used by management at various stages of an operation.

Utilize Spot Checks. It should be made clear that spot checks of all operations are a normal part of management control. For example: when perpetual inventory records are kept by an employee outside the stock room, it is possible to exercise effective over-all controls from the stock room by the use of prenumbered requisitions. A selective physical count of certain items in stock can be made at frequent intervals and then com-



pared with the balance shown on the perpetual inventory. If the stock on hand does not agree with recorded figures, it is time for an investigation.

Make Use of Deliberate Errors. The insertion of "controlled" errors into a program is frequently a valuable device for detecting indifferent and inefficient performance, not to mention malpractices. It's important to determine not only whether these errors are detected at all but also the stage of the operation at which they are uncovered. Examples of this method are:

1. The listing of fictitious invoices in purchase journals to be reviewed by purchasing agents;

2. The over-shipping or short-shipping of a specific order to a subsidiary, to determine how conscientiously receiving personnel are performing their duties.

Make Periodic Investigations of Security Conditions. To insure prompt follow-up of managerial instructions, key executives should inspect work areas periodically. These inspections should include critical operations such as processing of original entry documents, shipping and receiving, and security procedures. The following checks illustrate a typical inspection program:

1. The condition of security devices such as locks, alarms, and fences;

2. The presence of merchandise in vulnerable or unauthorized areas;

3. Large accumulations of damaged or salvaged merchandise;

4. The delays in processing returnable merchandise;

5. Any unprocessed documents, such as delayed invoices, shipping and receiving records, or bills of materials;

6. Inadequate safeguarding of key control documents, such as purchase orders, production records, or inventory sheets.

Utilize Important Psychological Safeguards. Although many businessmen realize that fidelity premiums are inexpensive for the coverage they provide, they are unaware of the realistic psychological benefits derived from bonding employees. Experience has shown that employees who know they are bonded are far less likely to steal than those who are unbonded or are ignorant of coverage by a fidelity bond.

Maintain Morale. It's important to estimate carefully the capabilities of your employees. Requiring them to perform up to an unrealistic goal, quota, or budget can create feelings of resentment or potential failure. These feelings, in turn, can lead to loss of time or material through an "I don't care" attitude or by outright dishonesty.

Personnel should know what is expected of them. Of course, just posting policies and procedures is not enough. Employees' reactions often indicate underlying feelings about working conditions, and the maintenance of good communications will assist management in discovering poor morale. ♦

Sales Promotion Shifts into High Gear

By Art Zuckerman

Condensed from Dun's Review and Modern Industry

PROMOTE! Promote! Promote! As business grows increasingly competitive, that is becoming the watchword of industry. In the past five or ten years, sales promotion in all its many forms has been called upon more and more to bolster the efforts of sales and advertising forces.

Company after company is employing the latest sales-promotion techniques to presell the ultimate users of its products, to reinforce its dealers on the sales firing line, and to make its dealers' salesmen more productive. Manufacturers are also making greater use of sales promotion to acquire dealers and to help them run their businesses more effectively.

The methods of sales promotion have long been familiar to consumer-product manufacturers. But until recent years, the producer of industrial and commercial products made little use of them. He has concentrated most of his effort on keeping the goods flowing to his distributors or customers. Today, things have changed. Competition has become a major problem for the producer of industrial goods, and he now finds himself turning to sales promotion with as much enthusiasm as the consumer-goods producer.

The growing importance of sales promotion generally is underscored by a *Dun's Review* spot survey of 60 manufacturers. Almost half of the respondents report they have increased their budgeted sales-promotion activity during the past five years. Among consumer-goods companies, more than half report such increased activity.

These companies demonstrated their faith in sales promotion during the 1958 recession, when cost-cutting was the order of the day. Instead of cutting back on promotion, a good 68 per cent held the line, and a quarter of the companies polled even increased their promotional efforts. The American Management Association discovered this same recession phenomenon in a 688-company survey. This survey showed that more than 80 per cent of the respondents scheduled at least as much sales promotion and advertising during the recession as they did in the preceding year.

The increasing recognition of sales promotion as a distinct and separate function is shown in studies made by the Sales Promotion Executives Association. (The creation of this group about five years ago was itself evidence of this recognition.) The SPEA

studies show that sales-promotion men today have larger budgets, bigger salaries, and more impressive titles than ever before.

Just how important is sales promotion in the total marketing lineup? More than half the participants in the *Dun's Review* survey put at least 10 per cent of their selling outlays into sales-promotion activities. Among almost half the consumer-goods companies queried, allocations for sales promotion run close to a third of total selling budgets.

Sales promotion was defined as every selling activity except salesmen's operations and paid advertising in the various communications media. Despite this exclusion of advertising, the definition includes ad services for dealers and distributors, on the theory that these are really dealer selling aids, not direct manufacturer advertising.

Five basic areas of sales promotion activity were compared in the survey:

- direct-to-user or consumer
- dealer recruitment and relations
- dealer selling aids
- dealer sales training
- dealer management aids.

Although all five basic forms of sales promotion seem to be growing, three stand out particularly: Roughly 48 per cent of the manufacturers surveyed are stepping up promotions aimed directly at the user or consumer, dealer selling aids, and dealer sales training.

Considerable interest is being shown by industrial-products manufacturers in distributor selling aids. A good half of those surveyed are building up their selling-aids programs, moving more heavily into a field that has always been basically the province of the consumer-goods producer.

A case in point is the manufacturer of plumbing and heating supplies who decided to try some new tricks in promoting a new line of draft regulators. He replaced his customary drab packaging with brightly lithographed, inviting boxes. He sent the supply houses a special paperboard rack suitable for countertop display or hanging on a wall. At the same time, he provided the supply houses with descriptive promotional literature that they could hand out to contractors. The new draft regulator line is now flying high.

The experience of this company is typical, says Harrison M. Rainie, Jr., a vice president of Stewart, Dougall & Associates, New York management consultants. He has witnessed a growing interest in dealer selling aids among his industrial-goods producing clients. "There are so many more choices available to the user of industrial products these days," he points out. "Marketing in this field has become much more complex. The industrial-goods distributor is being forced more and more to copy the ways of the retailer. His suppliers, therefore, find they must help him by providing more selling aids."

Though they're relative old-timers in the game, consumer-goods manufacturers are building up their own dealer selling-aids programs. About 46 per cent of those polled indicate they are expanding their budgets for such activities. On the other hand, more than a fifth of these companies are going in the opposite direction, cutting back on dealer selling aids.

This countertrend is, in all likelihood, more apparent than real. Chances are it is explained by some recent changes in point-of-purchase displays, which the survey reveals to be the most important selling aids. There is a clearly defined shifting of emphasis from cardboard-paper POP items to substantial, permanent display units. This shows up both in the survey and in the experience of spokesmen for the Point of Purchase Advertising Institute. Many a company has found that permanent displays, although expensive individually, cost far fewer dollars in a year than do streams of paper items. A further saving is realized because such permanent items are frequently paid for in part by the dealer. A lower outlay for dealer selling aids, therefore, does not necessarily mean a less intensive effort. It may reflect a more efficient job.

In addition to getting at the consumer through the dealer, manufacturers are aiming more promotional activity directly at the ultimate purchaser himself. Better than half the consumer goods producers covered in the survey are increasing direct promotion. And more than 40 per cent of the industrial goods manufacturers whose wares are sold through distributors are also promoting more heavily to ultimate users. All this is part of the trend toward pre-selling and brand identity.

According to the survey, the manufacturer of industrial products has been making greater use of direct mail to tell his story to product users. The consumer products manufacturer has been increasing his direct promotion through consumer contests, direct mail, educational literature, and films. Also getting greater use, though to a lesser degree, are premium offers, consumer expositions, and consumer-oriented house organs.

Despite all this emphasis on pre-selling and "silent salesmanship" by display, the survey uncovered surprisingly strong interest in dealer sales training. Half the consumer product companies are boosting their retail sales training, and over 45 per cent of the industrial goods manufacturers are increasing distributor sales training. Companies are scheduling more formal salesmen's courses, more local clinics and meetings. Product literature, slide films, and movies are being used.

Kimberly-Clark Corp. has set up a sales promotion center at its Neenah, Wis., plant. It includes a 200-seat auditorium, an all-purpose entertainment room, a kitchen, and every possible audio-visual aid. The center's program, which includes courses for dealer salesmen, retail clinics and product presentations, is supported by a $200,000 operating budget. Much of the credit for the company's $155 million sales increase in five years goes to its sales promotion.

Though they appear less significant in the *Dun's Review* survey, dealer management aids and dealer recruiting activities are also gaining favor. Almost a third of the companies surveyed report heightened interest in management and merchandising aids for their dealers. Local clinics and meetings are being set up with greater regularity. The industrial products company in particular is giving its distributors considerably

more personal counseling. Pre-packaged stock control programs are in wider use, too.

Some 41 per cent of the survey participants are increasing their efforts to woo and to hold dealers and distributors. They are sending out much more direct mail toward this end. Retailers are receiving more and more premium offers in the form of minimum-order deals.

Today's high-production economy rests on a base of volume sales. The base must be maintained at all costs. Loading up of a dealer's shelves won't do it; the shelves must empty quickly to make way for more merchandise. Advertising alone won't do it; the potential demand it creates must be turned into actual sales.

Sales promotion is the third ingredient, the catalyst that makes supply flow to demand. So long as industry continues to increase its production capacity, it's a safe bet that it will be calling on the services of sales promotion with ever-increasing urgency. ♦

Scientists and Collective Bargaining

COLLECTIVE ACTION to improve their income and status is favored by a sizable minority of scientists and engineers in large companies, judging from a survey of ten major firms made recently by the University of Michigan. The survey showed that about 20 per cent of the scientists and engineers in these companies are sympathetic toward some form of collective action.

About half of these think in terms of collective bargaining along union lines. The rest think their professional societies could collect more information on salary and status and distribute it to their members and to management.

Half of the scientists and engineers interviewed were strongly opposed to any form of collective bargaining, and another large proportion (29 per cent) were mildly opposed to it. Three per cent expressed no opinion.

Other highlights of the survey were:

1. There are no significant differences between scientists and engineers in attitudes toward collective bargaining.
2. There is no significant relationship between an individual's performance ratings and his attitude toward collective bargaining.
3. There are wide differences in attitudes toward collective bargaining among scientists and engineers working for different firms, based largely on satisfaction with salary and treatment by management.

Companies covered by the study included four chemical firms, two automotive and automotive parts companies, two electronics manufacturers, and two public utilities. All had substantial research and engineering departments.

—a realistic plan for WATER ALLOCATION

By Eli Schwartz

Condensed from Challenge

THERE may be water, water everywhere, but our increasing use of this natural resource is creating problems of allocation and conservation that can become serious as our population continues to grow. Industry, which will need more and more water in the years to come, has an important stake in the solution to these problems.

The satisfactory allocation of water use cannot be left to the market system. For example, using a body of water to dispose of waste material may be perfectly feasible and economical as far as the individual plant or community may be concerned, but it creates a hardship for those who would like to use the water for recreational purposes, drink it, or use it for certain industrial purposes downstream. Furthermore, water is difficult to apportion among competing uses. The maximum use of water for irrigation sometimes precludes the maximum output for power. Both of these uses may prevent maximum control of the water flow for flood prevention purposes. Moreover, there is competition between areas and industries over allocation of the water supply from a given watershed. Although market price and cost data will be needed to provide a rational solution, the final decision on allocation and control of water resources will have to be made by authorities outside the market system.

Our growing population is the basic factor in the water problem. Our population is now more than 170 million; probably it will reach over 220 million by 1975. If present trends continue, some 80 per cent of this increase will be absorbed by metropolitan areas. A large part of this growth will be suburban, with a resulting heavy demand for water for lawns and shrubs, washing machines, dishwashers, and air conditioners. Moreover, the growth of population within the metropolitan areas can lead to an increase in pollution, which will subtract from the available supply of usable water. Exact data

in this field are hard to obtain, but by 1975, we shall be drawing on about 30 per cent of the estimated natural water supply.

The use of 30 per cent of our potential water resources does not, at first glance, seem a cause for alarm. But a number of factors must be taken into account. One is the seasonal and erratic nature of rainfall, and the geographical variations in rainfall patterns. Another is that supplies and use, resource and population are not always in balance. Some regions of the country are even now in a deficit position and are "mining" the groundwater supply. In these areas the tapping of groundwater through wells is greater than the infiltration of new water; the result is ever lower water levels, mounting costs, and often a ruination of the groundwater supply by the consequent invasion of brackish or salt water.

On the plus side of the ledger is the fact that not all of the water drawn out of the available supply (200 billion gallons a day at present) is completely lost. Some of it flows back into the streams and rivers and can be used again. This, however, depends upon the condition of the water when it is released. If the water is reasonably clean and purified, natural processes can render it fit for use again. On the other hand, if the released water is highly contaminated or if the amount of polluted water fed back is too concentrated in a given waterway, then not only is the used water unfit for further consumption, but by its presence it ruins and destroys the economic value of the waters which it enters.

The problem of conserving and allocating water resources is not insurmountable, but it does demand planning, forethought, and the investment of capital now in anticipation of future needs. Some general guide lines can be laid down for approaching a solution.

Most important, although there has been considerable planning for the large river basin developments, the development and needs of the smaller watersheds and regions have not been given sufficient attention and forethought. A great deal more could be accomplished if additional funds were made available for planning and if the work were put on a more professional basis.

Much of the water allocation problem is regional and local and should be resolved on this basis. Surveys should be made of the recurrent annual water supply, with the different sources graded as to quality (usability for different purposes) and the cost of obtaining the water. Against this supply picture should be projected the pattern of future needs. These needs should not fail to include the intangible but highly productive use of natural water in providing recreational activities; the growing population density will raise the economic priority of recreation. Whenever possible, water resources should be subject to multiple use; there is reason to believe that multiple use for swimming, boating, and domestic purposes is much more feasible than before.

The total of anticipated use should be reconciled with the available continuous supply, taking into consideration the water needs of competing

communities. A start should be made toward upgrading those sources of supply where a condition of pollution makes them unfit at present for higher use. More data on the extent of pollution is needed; certainly we have no notion of the full cost of pollution, not only as a destroyer of water supplies, but also as a depreciator of land values. Whenever the total costs of pollution exceed treatment costs, then pollution control is economically justified. Pollution could be more effectively curbed if waste outlets were metered and if the discharge of contaminated waters were taxed both as to quantity and by type according to the difficulties involved in its treatment.

Lastly comes the problem of how to set the water charges for various types of water use. Once a water project has been set up, the rates should encourage maximum use of the annual flow, but they should not be so low as to accelerate the necessity of developing new and perhaps lower grade sources. A minimum amount of water for domestic use should be charged for at a fixed rate to encourage sufficient domestic use to maintain basic standards of health and sanitation. Beyond this minimum amount the charge should be variable or metered to discourage waste. For industrial or commercial uses the minimum should be set much lower, relative to total use.

These are but a few suggestions. The difficulty of the problem makes it urgent that we start now to work out a solution, area by area, region by region. If we do not, there is a real possibility that our potential economic growth and living standards will eventually be stunted. ♦

WHERE SUPERVISORY INCENTIVE PLANS GO WRONG

By Richard C. Smyth

Condensed from Factory

An incentive plan for first-line supervisors can dramatically raise the level of supervisory performance—if it is handled correctly. If it isn't, however, it may do more harm than good.

Here are some important considerations for the establishment of an effective supervisory incentive program:

To start with, a sound supervisory incentive plan must be based on the realities of supervisory jobs. Try to avoid the kind of incentives normally used for higher management, for whom the incentive base tends to be broader.

Most successful incentive bonus plans are savings-sharing plans. These are aimed directly at the most significant aspects of the supervisor's job at the department level. In a typical plan, a formula, fixed in advance, links the amount of bonus to the relation between each supervisor's actual work and a predetermined standard of performance.

Some plans use a single factor, as, for example, paying a bonus only for reduction of departmental direct labor costs. This can be dangerous: supervisors covered by such a plan are likely to pay little attention to schedules, equipment repair and maintenance, quality, or other key factors.

To avoid this kind of trouble, use several factors, selected on the basis of the company's own specific situation.

Each factor should pass three tests:

- Better performance by the supervisor should help the company meet its over-all profit objectives.
- The factor should be within the supervisor's area of responsibility, so that he can control it and act on it.
- The factor should be measurable, wholly or in part, on an objective basis.

Beware of selecting factors that can become self-defeating in terms of your over-all company objectives. For example, some plans use the factor of tool cost and equipment repair, measuring actual spending against budget.

This, however, can lead to trouble. By motivating supervisors to reduce tooling and repair costs, a company can push over-all costs up instead of down if too *little* money is spent on tooling and maintenance.

Use of labor turnover as a factor can also backfire. It may encourage supervisors not to discharge employees in the occasional case where discharge is in order.

As a general rule, the plan should

be simple enough in mechanics to be easily understood by participants. But this does not necessarily mean that the simplest plan will be the best. The typical supervisory job needs several factors to cover its basic elements.

Some factors, too, will have to be weighted more than others. In general, for example, labor cost should rank higher than the factors of absenteeism or safety. But this is not always true: in an electrical utility, safety may have top priority.

As a rule of thumb, bonus payments should equal 20 to 30 per cent of base salary. In addition, some kind of ceiling should be established to prevent excessive bonus payments due to "windfalls" or unusual conditions not related to supervisory effort.

The participants in the plan should receive at least their regular salaries. Thus, if a foreman ends up with a minus score, he should not be penalized. His failure to earn a bonus should be the signal for higher management to work with him to help him meet his goals and objectives in the future.

How often should the bonus be paid? The most common approach—monthly payments—is not always the best. A foreman might regard monthly payments as a regular part of salary, and might raise his scale of living accordingly. The best method is paying the bonus annually, while at the same time giving the supervisor a monthly report on his accumulated point standing. Consider, too, paying the bonus in a separate check, personally presented by a top management man.

Limiting incentive plans to production departments is risky. The supervisors of indirect departments such as maintenance, toolroom, purchasing, and accounting will inevitably feel they're being discriminated against. It's worth the trouble to analyze the different departments and develop meaningful factors that can be measured objectively.

A supervisory incentive plan should cover all supervision. This means your starting point should be the smallest organizational unit for which separate records are kept. Each such unit or department typically will have a foreman or supervisor in charge. Large departments, however, may have additional supervision. In such cases, the plan can have a group application, with each of several supervisors receiving the same point total.

Pre-testing your supervisory incentive plan is the best insurance against later trouble. The simplest way is to give the plan a "dry run" by applying it retroactively over a representative period of time to all affected departments.

In the course of this dry run, you will quickly learn whether you have clearly defined the standards of measurement, how readily you can pick up the necessary figures from company records and reports, and how much bonus would have been earned.

If the supervisors covered by an incentive plan don't understand it or don't believe it's fair and honest, it's almost certain to be a failure. The plan should be thoroughly explained to supervisors before it's put into effect. The best way to do this is to make the presentation carefully and

personally to small groups. Plenty of examples should be used, questions should be answered, and each man should be given a copy of the plan.

Once the plan is in operation, you will get best results if you guarantee that it will continue unchanged for the first year. After that, there is logic in reviewing it to make sure that it's achieving the intended results and is fair to the supervisory group and to the company. ♦

When You Must Fire an Employee . . .

THE WAY AN EMPLOYEE IS FIRED can stir up resentment and fear among the remaining employees, even though the dismissal is completely justified. That's the conclusion of a recent survey of employee attitudes, which showed that of 2,376 non-union employees in six companies 76 per cent felt they could be fired without much cause and only 24 per cent thought dismissals were handled fairly. The survey was conducted by Survey Research Associates (Scarsdale, N.Y.).

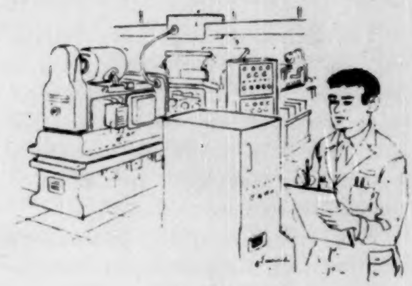
Typical comments of the respondents were: "I have seen employees fired without any explanation or warning." "Loyal employees are fired on five-minute notice."

The survey found a virtually identical pattern of dismissal procedures in all six companies:

- Management avoided the distasteful subject of dismissal in communicating with its employees. Three firms had an unwritten policy which they assumed their employees understood, although they had never bothered to find out.
- When employees were dismissed, they were handed their severance pay at the time of notification (usually late Friday) and were asked to leave immediately. Company reasoning was that after notification of dismissal an employee will not treat customers courteously, will do little work, and might make other employees uneasy.
- Fellow employees usually learned about the dismissal through word-of-mouth on the following Monday. Most were never aware of factors such as previous warnings, work discussions, or severance pay.

The Survey Research Associates recommended three steps for making sure employees do not become unnecessarily fearful about dismissals:

1. Establish a clear dismissal policy if you do not already have one. It should cover: (a) what actions bring immediate dismissal; (b) warnings about unsatisfactory work; (c) review of warnings by higher supervision; (d) rights of appeal; and (e) severance pay policy.
2. Publicize the policy in the most important employee communication media. Explain it carefully to all new employees.
3. When you must dismiss an employee, notify him as early as possible, tell him about his severance pay, and offer to discuss his situation with him. Let him work at least a full week more, with time off for job hunting.



Solving the Human Problems of AUTOMATION

Condensed from Industrial Relations News

WHATEVER the eventual impact of automation, workers—individually and collectively—fear it. Experience has shown that the installation of any equipment that mechanizes or automates what was formerly done manually will bring shock waves of insecurity and resentment to the workers involved.

However, talks with union spokesmen and company executives who have been studying the real and imagined problems of automation have turned up a number of concrete suggestions for relieving this fear, as well as for easing burdens on both labor and management.

The first thing a company can do if it plans to install automatic equipment is to inform its workers as far in advance as possible. In some instances, this can be accompanied by assurances that nobody will lose his job. The Bell companies for years have formally notified telephone operators about a year in advance of switching to dial systems.

Advance notice can serve several purposes. First, it gives unions a chance to make suggestions for minimizing possible dislocation problems. Sociologists say that the sense of participation alone often helps gain acceptance for the new equipment. Also, some workers may have to find jobs elsewhere; advance notice gives them the chance to do so.

Some affected workers can be offered similar jobs in other parts of the company. Or, they can be assigned to operate the new equipment. This, however, is not without problems. Joseph A. Beirne, president of the Communications Workers of America, explains: "A telephone operator who has been doing essentially the same basic operation for 30 years suddenly finds herself confronted at age 50 with the necessity of learning entirely different and more complicated work procedures. From an experienced, confident local operator, she suddenly becomes an inexperienced toll operator."

The Bell companies offer retraining in many such cases. Union leaders in other industries seek contract provision for retraining. The cost, they feel, should be considered part of the company's cost of introducing the new machines.

One union fear is that management will overlook many veteran employees who are capable of making the change with the aid of training. Union leaders say workers should be tested to determine their adaptability. According to the AFL-CIO, "Unions recognize that such a training obligation should be limited to workers who can reasonably be expected to qualify for the new work after the appropriate training, but we want management to make every effort to obtain such trainees from the existing ranks."

Unions want seniority to govern who gets first crack at new work, and they have been stumping for the exercise of seniority over wider and wider areas in multiplant companies. The AFL-CIO is considering preferential hiring provisions which would require all organized companies to give first crack at openings to laid-off workers in the same industry and area.

Once a worker is installed in a new job, the unions want him to be paid at his old rate—at least until the end of a specified trial period. After that, they insist, if the new equipment results in increased productivity, the new wage rate should be scaled higher.

On the other hand, in those cases where the only work available for a displaced worker carries a lower wage rate than his former job, he should continue to be paid at his former rate for some specified period of time.

Following the installation of new automatic equipment at one oil refinery, for example, 38 per cent of the workers were downgraded to jobs paying lower rates. The Oil, Chemical and Atomic Workers Union negotiated a maintenance-of-job-rate provision under which workers with over five years' service did not have their wage rate decreased until six months after their transfer to the lower-rated jobs.

One problem that will arise in many cases is relocation. A multiplant company might have jobs for displaced workers in another city. Or it may shut down an obsolete plant and open a new one hundreds of miles away, offering jobs there to its former workers. Normally, moving expenses of supervisors are paid by the company. There have been a few instances where the company has also paid workers' expenses. Two years ago, more than 1,800 Lockheed Aircraft Corp. employees were moved 400 miles from an old Missile Systems Div. plant in Los Angeles to Sunnyvale and Palo Alto, Calif. The key provisions in the agreement with the Machinists Union were:

1. Notice of transfer was to be given as far in advance as was "reasonably possible." Workers involved were invited to transfer, and selection was based on seniority and competence. All seniority credits were retained at the new plant.

2. The company paid the cost of moving and storing normal household goods, and handled the moving arrangements. Workers received an allowance of eight cents a mile for driving their families to the new

location, with provision for air or rail travel, if required.

3. A daily allowance was provided for the worker and his family covering one day's travel and a 30-day resettlement period. The allowance was ten dollars a day for the worker, ten dollars for his wife, and five dollars for each dependent.

Of course, some workers may have to be permanently laid off. More than 50 per cent of U.S. companies employing 1,000 or more workers, as well as many smaller companies, offer severance pay benefits. Special severance pay benefits covering technological displacement are usually not provided for in advance, but are negotiated at the time of change in plant operation. In a number of cases, however, such provisions have been written into union contracts.

For example, the Brotherhood of Railway Clerks and Chesapeake & Ohio Railway Co. negotiated an agreement aimed at protecting office clerks whose work was turned over to a computer center. Under this agreement, the railway clerk is assured that:

- For 5 years he will receive at least the same pay, working conditions, and fringe benefits.
- If he's laid off, he'll be paid unemployment benefits equal to 60 per cent of his normal pay for six months to five years, the exact duration to depend on his length of service.
- He may choose, in place of unemployment benefits, a lump-sum severance payment ranging from three to twelve months' pay, depending on length of service.
- If he transfers to a new location, he will be reimbursed for all traveling and moving expenses, for any losses on his home due to the move, and for living expenses and wage loss during the period of getting settled in the new location.

One of the most significant steps taken to help solve the problems brought about by technological change was an agreement written into a contract on August 30 by Armour & Co. and meat production workers' unions representing about 15,000 Armour meat packing employees. Essentially, the plan calls for the establishment of an automation study fund, to be financed up to $500,000 through company contributions of 1 cent for every 100 pounds of meat slaughtered or packed in Armour's 27 plants. The fund will be administered by a labor-management committee, functioning under the direction of an impartial chairman, and will be used to develop retraining and relocation programs for workers whose jobs have been wiped out by new technological processes. The committee is pledged to "make every effort to cushion" effects of unemployment caused by automation. Other meat packers have already followed the Armour lead and adopted the fund idea. Predicts one top union economist: "Unions in other industries will press for the s me thing."

There are no ready-made answers to the problems generated by accelerated technological change. And the findings of the Armour committee might not apply outside the meat packing industry. But the group's very existence, observers feel, might stimulate similar positive moves in other industries. ♦

BRIEF SUMMARIES
of other timely articles

GENERAL

CAN YOU USE COMMERCIAL ARBITRATION? By Frank M. Kleiler. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), October, 1959. 75 cents. More and more companies are taking their business disputes to commercial arbitrators, not only for the quick, economical settlement they offer, but primarily because they hold private hearings that afford protection for company secrets, says the author in this discussion of cases that have been handled by the American Arbitration Association and other commercial arbitrators. It is a good idea, in his view, to include a "future dispute arbitration clause" in business contracts to save time, expense, and damaging publicity over possible disputes involving failure to ship or deliver, quality of merchandise, late shipments or deliveries, refusal to accept delivery, or technicalities of international transactions.

LIGHTEN YOUR WORKLOAD. By Joseph G. Mason. *Nation's Business* (1615 H Street N.W., Washington 6, D.C.), November, 1959. Reprints 15 cents. By standardizing procedures as much as possible, executives can free themselves of time-consuming details and devote their energies to more creative and productive tasks, maintains the author. He offers a check list for exploring the possibilities of standardization in five main areas: *product* (quality, design, and materials), *personnel* (organization structure and employee relations), *operations* (maintenance, equipment, and inventory), *procurement* (supply and purchase), and *promotion* (marketing and budgets).

THE REVISED PRINCIPLES AND PRACTICES OF COLLEGE RECRUITING, *Journal of College Placement* (35 E. Elizabeth Avenue, Bethlehem, Pa.) October, 1959. $1.50. When recruiting college students for employment, a recruiter should avoid offering them special payments or gifts; should not raise offers already made, except when such action can be ethically justified; and should keep the college placement office informed concerning his interest in particular students and his negotiations with them. These and other responsibilities of the employer, college placement office, and student are described in this article, which offers suggestions for more effective college recruiting.

CONVENTION FACILITIES SECTION. *Sales Management* (630 Third Avenue, New York 17, N.Y.), November 20, 1959 (Part Two), 50 cents. Designed for executives who plan conferences, conventions, shows, and exhibits, this special supplement provides a comprehensive list of convention hotels, auditorium facilities, exhibit areas, and service suppliers in the U.S., Canada, Central America, and the Caribbean. Also listed are hotel rates for meeting rooms, bedrooms, meals, and exhibit space; airlines and railroads serving convention cities; and sales organizations that specialize in planning conventions or that represent convention hotels.

Please order directly from publishers

INDUSTRIAL RELATIONS

NEW LABOR LAW OF 1959. (Commerce Clearing House, Inc., 4025 W. Peterson Avenue, Chicago 46, Ill.) $1.50. This booklet presents the text and a thorough analysis of the Labor-Management Reporting and Disclosure Act of 1959, recently signed into law by President Eisenhower. Each of the law's provisions is explained as to purpose and effect; changes from previous requirements are analyzed; and reports required are listed and described. Provisions of the bill of special interest to executives include those pertaining to rights of employees and union members, reporting by employers, reporting by labor relations consultants, extortionate picketing, and the new law's effect on other laws and on the existing rights of labor and management.

FEATHERBEDDING: THE ECONOMICS OF WASTE. By Jules Backman. *Challenge* (475 Fifth Avenue, New York 17, N.Y.), November, 1959. 25 cents. Nobody gains from the practice of making work where there really is no work, the author asserts in this article on the unfavorable effects of featherbedding on the employer, the stockholders, the workers themselves, and the nation as a whole. By blocking the free flow of labor into those areas in which its use could be maximized, featherbedding impairs and restrains the long-term rise in productivity upon which economic growth depends, he says, warning that the longer it takes labor leaders to realize this, the greater the likelihood that government controls may be imposed to offset their lack of self-discipline.

MAKING INCENTIVES WORK. By Frances Torbert. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), September-October, 1959. Reprints $1.00. Are there incentive plans which can reduce employees' resistance to change, increase their acceptance of a firm's business goals, and raise productivity? Yes, says the author in this article, which describes how group incentives, combined with employee participation in decisions affecting their working conditions, may turn "don't care" employees into high producers. In pointing out that rapid technological change has made new kinds of incentive plans necessary, she discusses the motivation of employee-initiated action, bonus payments, possible conflicts with union officials, and ways to use profit sharing, as well as reviewing the steps and pitfalls involved in the establishment of a group incentive plan.

OFFICE

TECHNOLOGICAL DEVELOPMENTS. *Modern Office Procedures* (812 Huron Road, Cleveland 15, Ohio), November, 1959. 75 cents. New technological developments have resulted in some highly efficient office machines (one that can read and write the same language the human eye can read, one that can print 10,000,000 labels a week on one shift, and one that can handle 832,000 airline reservations), points out this article, which explores the impact of these developments on all office work—reproducing, printing, dictating, punched cards, communications, and computing. Maintaining that the high initial expense of new machines will be outweighed by gains in speed, efficiency, and productivity, the article emphasizes that they will not replace office workers, but rather will create new jobs calling for higher skills and more training.

LOOK BEFORE YOU LEASE! By Julien J. Studley. *American Business* (4660 Ravenswood Avenue, Chicago 40, Ill.), November, 1959. 50 cents. When seeking new office space, a company should consider whether the new location permits expansion or retraction, provides a help-

Please order directly from publishers

ful corporate image, and is free of hidden costs, says the author, as he discusses the requirements and problems faced by companies searching for offices to fit their needs. Among many things the prospective tenant should know before deciding on new premises, he advises, are the percentage of usable space, what sublease provisions are offered, and the cost of additional services such as cleaning, electrical maintenance, heat, elevator service, and air conditioning.

BASIC SYSTEMS FOR CONTROLLING PURCHASING DATA. By Elliot Schick and Franklin G. Bishop. *Purchasing* (205 East 42 Street, New York 17, N.Y.), October 12, 1959. 75 cents. Intended as a guide for companies with only rudimentary purchasing organizations or as a refresher for experienced purchasing management, this article presents the fundamentals of data flow between purchasing, operating departments, and vendors, and effective ways of handling it. The two main streams of basic data in purchasing—financial information (from budget authorization to actual payment) and material information (from requisitioning to receiving and inspecting purchases)—are discussed, together with various methods for implementing them, such as manual, pegboard, punched card, or computer.

MARKETING

CRISIS IN ADVERTISING: WHAT CAUSED IT, WHO'S TO BLAME, WHAT NEEDS TO BE DONE. *Printers' Ink* (635 Madison Avenue, New York 22, N.Y.), November 27, 1959. 25 cents. Only one automobile can give the most gasoline mileage, only one cigarette can filter best, and only one soap can produce the whitest wash, asserts this first article in a four-part study of current abuses of truth and taste in advertising. Six months of investigation led to the conclusion that everyone connected with the industry must share the blame and that increasing public criticism leaves admen with two alternatives—voluntary housecleaning or government rulings—concerning such practices as exaggerated and conflicting claims, disparagement of a competitor's product, jarring commercials, and triple spotting.

WHEN PRICING FOR PROFIT DON'T PICK YOUR PRICES OUT OF A HAT. By Mark Leipman. *Canadian Business* (300 St. Sacrement Street, Montreal, Canada), November, 1959. 50 cents. The correct pricing of a product calls for a skillful blending of market factors as well as other data, says the author, as he presents a set of critical points which must be considered in pricing a new product or reviewing an established price. There are many cases, he believes, where a price policy depends more on marketing and advertising, the competition's prices and activities, or customer loyalty and proximity than it does on cost. The author also discusses weaknesses in current pricing methods which result in lower profits, such as relying on a mechanical pricing formula; using only cost data or sales information in establishing the price policy; and cutting prices to win customers away from rivals.

ADVERTISING AGENCY COSTS AND PROFITS. By Frederick R. Gamble. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November-December, 1959. Reprints $1.00. Are advertising men "hucksters" and "heavy spenders," or are they businessmen facing rising costs and declining profits? In answering charges leveled against the ad agency field, the president of the American Association of Advertising Agencies points out that, despite a slight increase in agency business in 1959, their collective profits dropped to the lowest point in 20 years. Agencies are caught, he contends, between rising costs and client resentment if services are curtailed, and he describes areas in which agencies face greater risks than do most corporations.

Please order directly from publishers

PRODUCTION

ENGINEERING AUTOMATED EQUIPMENT—WHO PAYS? By Roger W. Bolz. *Automation* (Penton Building, Cleveland 13, Ohio), November, 1959. $1.00. Who pays—the builder or the buyer—for engineering and research which precede the installation of automated production equipment? Is there a businesslike and ethical way of deciding? The author examines these questions and other builder-buyer aspects of the costs of manufacturing research, and offers guideposts for negotiating—in the proposal stage and in the pre-equipment and equipment phases of the contract stage—the share of these expenses. The main problem, he concludes from comments of a panel of executives in the field, is not so much the standardization of the procedures for the acquisition of custom automated equipment as it is communication between purchasers and builders.

METAL SELECTOR. *Steel* (Penton Building, Cleveland 13, Ohio), October 26, 1959. 50 cents. Designed to help the metalworking manager pick the right material for the job, this 1959 edition lists 1,050 standard and special metals, their trademarks or identifying alloys, composition, properties, typical uses, and some sources. The categories of ferrous and nonferrous metals include vacuum melted metals, high-strength steels, stainless and heat-resistant steels, H-steels, copper alloys, aluminum alloys, magnesium, zinc diecasting alloys, cast high alloys, and two relative newcomers: beryllium-bearing alloys and zirconium.

FINANCE

BUSINESS FINANCING IN 1959. By Berdj Kenadjian and Gardner F. Derrickson. *Survey of Current Business* (Superintendent of Documents, U.S. Government Printing Office, Washington 25, D.C.), October, 1959. 30 cents. Total corporate long-term financing from external sources dropped to $4½ billion during the first half of last year, but increased retained earnings enabled U.S. corporations to generate a substantial part of funds used to finance their needs, report the authors. Other factors covered include the expansion of short-term bank borrowing, the importance of accelerated depreciation, increases in tax liabilities to the federal government, and cycles of business liquidity.

THE FINANCIAL COMMUNITY LOOKS AT LEASING. By Richard F. Vancil and Robert N. Anthony. *Harvard Business Review* (Soldiers Field, Boston 63, Mass.), November-December, 1959. Reprints $1.00. Is a long-term, noncancelable lease equivalent to debt? A recent survey of analysts and other financial authorities in the U.S. and Canada indicates that, while most of them *say* it is, only a few *act* that way. The survey revealed that of the respondents, less than half the insurance companies, less than one fourth of commercial banks, and practically no mutual funds, investment bankers, or fund trustees actually do make use of formal analytical techniques equating lease payment to debt—and among those who do, techniques vary tremendously.

FOURTEEN IMPORTANT RATIOS IN 36 MANUFACTURING LINES. *Dun's Review and Modern Industry* (99 Church Street, New York 8, N.Y.), December, 1959. 75 cents. Compiled as an aid to manufacturers in checking their own performance against that of their competitors, this chart of 14 important ratios provides a useful tool for identifying possible financial trouble spots. Median and quartile figures—which are given for such ratios as current assets to current debt, net sales to inventory, inventory to net working capital, and current debt to inventory—are provided for 36 types of manufacturing companies.

Please order directly from publishers

Dark Horse in Tomorrow's Marketing

(*Continued from page 9*)

tionally advertised shampoo in the large size is sold by this store for \$1.75—about a 37 per cent mark-up on retail, for it costs the store about \$1.10. The store's brand sells for 59 cents. A nicely bottled castile shampoo, it costs the store only 25 cents and supplies a 58 per cent mark-up. Although it has a slower turnover than the nationally advertised brand, it obviously has its place in the chain's planning.

Film offers another example. The chain offers slight competition to established brands of film with its own Belgian import, which it sells at the rate of 29 cents for a single roll and 85 cents for a three-roll pack. The company's film is well displayed, not only in the photographic supply department, but as an impulse item at the cigar counter. Although one well-known brand, which sells for 47 cents a roll, outsells it 10 to 1, the store makes a good profit from the imported film.

Then there is the not uncommon instance of a national brand manufacturer of tincture of merthiolate, whose one-ounce bottle sells for 57 cents and gives the druggist about 30 per cent mark-up. He also produces the same product to sell under the store's own label for 35 cents at retail and a 60 per cent mark-up. Moreover, he announces on the store's bottle that he is also the producer of the nationally advertised brand.

That this giant retailer's own brands are important to his profit picture is evidenced by the efforts of his chief strategists. Headquarters constantly prepares new products and packages under its own labels, issues and strictly enforces display instructions to line managers, allocates big local advertising budgets, and pays a sales commission on the store brand.

WHO MAKES PRIVATE BRANDS?

There are no accurate statistics available on manufacturers of distributor-controlled brands, since most do not make this activity public record. An educated guess—made in a study by E. B. Weiss, director of merchandising for Doyle, Dane, Bernbach, Inc.—is that of the 800 or so manufacturers who advertise to presell their nearly

nationally distributed products, at least half turn out special labels for distributors. In certain fields, it is an industry-wide policy to supply goods for distributors. (This situation, a common practice in the food industry, was recently "discovered" by Rep. James Roosevelt in his West Coast inquiry of canners' practices.)

In certain industrial-goods fields, the suppliers of private-label goods are not looked upon so benignly. Their wholesalers and retailers, who sell the more expensive brands, have to buck real competition, since there is much less national advertising to differentiate private-label goods from those that have advertising prestige attached to them.

Many manufacturers devote as much as 40 per cent of their total production to merchandise earmarked for distributor-controlled brands. This does not mean that supplying private labels is necessarily good business for every manufacturer. A private-label appliance manufacturer recently dropped this whole operation because only the distributors were making money. Yet many manufacturers are expanding private-label production because this part of their business is not only growing, but growing at a more rapid rate than their own advertised brands.

QUALITY AND APPEARANCE

Some giant retailers have established testing bureaus to insure that their standards are met before putting the store label on manufactured or imported goods. Those that manufacture bring in designers to make quality products, which they test for consumer acceptance. Not all private-label retailers are as accomplished in the packaging and presentation of their products as individual brand-name national manufacturers, who are willing, or forced, to spend money on research and production methods. But they don't always fall far behind: at a recent Cleveland packaging show, a private label was among the first-place winners.

Manufacturers of controlled brands are trying to match the top brand-name makers, both in quality of product and appearance. The accusation that they're riding on the coat-tails of brand-name manufacturers doesn't always hold true. The sound and the fury was raised recently by the president of the Brand Names Foundation, when he said that "No private label, past or present, has ever

pioneered a new product or improved an existent one." A columnist for *Home Furnishings Daily* fished up facts to the contrary: Sears made history in the 1930's by employing a top designer to engineer the Coldspot refrigerator; one of the first nonbolt-down electric washers was developed for the Associated Merchandising Corporation's private-label program (and the design was promptly franchised by a national brand manufacturer); in 1946, the "best-looking, safest pressure cooker on the market" was manufactured for a private-label outlet.

WHY PRODUCE PRIVATE LABELS?

At many meetings of the Grocery Manufacturers of America, the private label was a highlight of discussion. In the American Marketing Association there is similar interest. In the spring of 1959, marketing experts in New York heard the editor of *Super Market Merchandising* disclose that several prominent brand-name manufacturers were in a quandary: Their top labels were widely distributed and accepted brands in the market, but their production of distributor-controlled brands was so profitable that they had to decide between the continuation of their own brands and switching to the production and sales promotion of brands they were making for individual supermarkets and grocery chains.

Other reasons why manufacturers go into private labels:

1. Were it not for the income gained by this extra business, some manufacturers might not have as big an advertising budget as they need for their own brands.

2. Private-label work is almost mandatory in some fields, to take up excess capacity and to make use of mass-production methods and scheduling that benefit the producer in the manufacture of his own product.

3. The fact that mass quantities are usually sold in a private-label arrangement makes for more accurate projection of sales and profits than is possible with the maker's own national brand.

THE ROLE OF THE MIDDLE MAN

Although there is constant discussion of the importance of private labels in giant retailing, there is often not enough attention paid to the condition the nonchain operator finds himself in. The

totally free and independent grocery store has had a hard time keeping up with the A&P, Kroger, and the other food giants, but the self-service grocery that has cooperated with other small stores in the same boat and their mutual wholesaler has not only survived but held its own against the giant retailer. By forming voluntary wholesaling groups or joining cooperative wholesaling groups, small grocers have been benefiting by mass purchasing and effecting other ways of meeting chain-store competition successfully.

Some time ago, a study of the wholesaler's development in the independent—chain store battle described in some statistical detail the new basis for teamwork between wholesalers and retailers in food distribution. This analysis of a Committee on Modern Food Distribution questionnaire, to which hundreds of wholesalers throughout the country responded, shows that postwar cooperation between wholesalers and retailers is tied up closely with private-label activity. The wholesaler, in full partnership with his retailers, was found in many instances to be exerting his maximum efforts in the direction of keeping retailers informed, advertising, conducting sales promotions, modernizing retail stores, systematically training retailers, and locating and merchandising nonfood lines.

PRIVATE LABELS AND SERVICES

Wholesalers' efforts seem to be in proportion to the percentage of business they do under private labels. In this study, those that did little or no private-label business with their retailers gave very few of these services. For instance, only one-fourth of the wholesalers who indicated they did no business under private labels gave assistance in store planning, but three-fourths of wholesalers with more than 45 per cent of their sales in private labels helped the retailer to modernize his store. Similarly, the wholesaler doing no private-label business had almost no occasion or desire to help train the retailer in the management of his store, but one-fourth of those with 5 to 20 per cent of their sales in controlled brands did give management training.

Grant Gore, who wrote the committee's findings, interpreted this situation: "The private-label house (the distributor whose brands are competing with those often placed on the retailers' shelves by virtue of an expensive advertising campaign paid for by the manufacturer

or packer) goes to some lengths to provide systematic training programs for his retailers—with more than a suspicion that his training is centered around promotion of his own brands."

As for financial assistance for expansion, modernization, and renovation, the private label is a crucial matter again. Only 7 per cent of the wholesalers doing no business under their own controlled brands gave any financial aid, but almost one-quarter of those doing up to 20 per cent of their business in their own brands made cash available to retailers.

The private-label thread running through this study of wholesaler-retailer teamwork is certainly not an accident. Recently an authority on private labels suggested to brand-name manufacturers that, since their trade franchise is weakening, they should strengthen their consumer franchise—predominantly by advertising—with less concern with what's going on in trade channels. If the consumer demands an item, according to this line of reasoning, it will somehow get to him. This attitude has tended to isolate the national-brand manufacturer from many of the nonchain stores, who actually sell a bigger share of the nation's groceries than the food chains. The smaller outlets have retaliated against manufacturers' apathy with mutual coöperation and exploitation of private labels.

CO-OPS AND VOLUNTARY GROUPS

In his projection of the future of the grocery industry at the latest Grocery Manufacturers of America meeting, Robert Mueller, editor of *Progressive Grocer,* paid due credit to the remarkable performance of retailers who are members of co-ops or voluntary groups. Sales of co-op warehouses in the last ten years have increased 365 per cent, and those of voluntary wholesalers, 181 per cent. These figures far overshadow the 107 per cent rise in a similar period registered by leading chains. Unaffiliated independents have been losing ground steadily. Since 1947, affiliated grocery stores' sales have risen from 29 per cent of the total market to 1958's record of 45 per cent. The chains gained only 2 per cent, and the unaffiliated independents' market share has dropped from 34 per cent to 16 per cent. In the 1960's, according to Mueller's projection, lone-hawk grocers will command only 11 per cent of the market. The difference will be split between the chains and the

affiliated independents, who in 1965 may command 45 per cent of $69 billion grocery-store sales.

Healthy wholesaler-retailer cooperation, then, is an important consideration in the future growth of private labels. Wholesaler labels will grow more powerful and give some manufacturers the same kind of competition they face from giant retailers today.

THE ULTIMATE BUYER OF PRIVATE LABELS

No matter why and how and where private-label goods get on a store shelf, it is the shopper who finally has to be convinced they fit the family's needs—and its budget. The consumer may know little about margins and manufacturers' profits, but he knows what he likes. At least, he reaches up and buys a brand other than that advertised on his favorite network television program. Why?

Alvin Outcalt, who, as promotion manager for Volkswagen, is somewhat in a "private label" situation, seems to have touched the nerve of the issue in a recent speech, when he said that "the consumer has read more, seen more, heard more and learned more" in recent years than ever before. In short, the customer is smart and recognizes value. Better-educated buyers, of which there are increasing numbers, feel that there is less and less real difference between products. They are less likely to shun a private brand simply because it lacks the prestige created by national ad campaigns.

Since all retailing is local, the consumer is most influenced by the combination of what he reads, hears, or sees in his local paper and other media, plus the competitive pricing and display in the local stores. A national ad campaign doesn't beat him into submission; it may even miss him completely. On the other hand, a local giant retailer like Macy's can take a full-page ad in the leading New York papers, enjoying the cheaper local advertising rates, and use this advantage to sell its own brands.

There is another partial explanation of why shoppers buy private brands as readily as the nationals. As Beardsley Ruml has pointed out, the "consumer is free as never before—free to postpone, free to reduce, free to anticipate, free to switch from one unnecessity to another." In the attempt to capture the consumer, a lot of advertising relies on generating dissatisfaction for the old. Many a con-

sumer gets that part of a national advertiser's message, but when he goes out shopping, his appetite for a bargain suddenly comes to life, and he may well buy someone's private brand instead of the brand of the national advertiser who originally aroused his interest. The lure of a good value is frequently stronger than advertising-generated "prestige."

PRODUCT IMAGE AND STORE IMAGE

Even on the prestige front, private brands, particularly those of the giant retailers, are making headway. Distinguished French couturier designs are being bought and offered by mail-order houses in their catalogs; private labelers are turning out better packages, and building up not only brand images but those of their corporations as well. Better lighting, store promotions, baby-care sections, community projects, contests, scholarships, contributions to charities, and other positive influences by stores at the local level are building up a favorable image in the consumer's mind. Now that expert designers are being employed to upgrade the eye-appeal of private-label goods, the image of quality previously enjoyed only by established brands is slowly being assumed by private brands as well.

Although the question is being batted around, many market researchers believe that the store personality is already coming into its own. There seems to be little question that the A&P and Macy's, for instance, have developed strong images in people's minds. But what about smaller stores? Back in 1954, Pierre Martineau said, "The chains have established a meaningful and highly acceptable personality for their stores, and the shopper accepts the chain brand as part of this atmosphere, which she likes."

A couple of years later, Dr. Ernest Dichter probed why housewives buy private labels and concluded that the chains' success with their own brands is "not due solely to the better shelf position and promotion they receive. . . . While only four or five years ago housewives were definitely suspicious of chain store brands and dismissed them as inferior to national brands on every score, today these inhibitions are almost gone. According to our findings, housewives now accept private labels on the same level as national brands."

Although there is insight in both statements, there may be stardust on them, too. Motivation researcher James Vicary feels that —with very few exceptions—chain store images are vague in people's minds. He feels that the psychological mechanism is similar to that which explains why women save trading stamps: Private labels are something that show how thrifty the shopper is.

But, more fundamentally, "private labels are redress for overpurchasing, and a cover-up on excess buying." A test he conducted showed shoppers bought 38 per cent more than they had expected to before they went to the supermarket. In his supermarket forays, Mr. Vicary found that women bought such impulse items as chocolates, cookies, and candies—and, to make up for these additional expenses, resorted to private labels to reduce the bill, or at least as token effort to rationalize the overpurchases.

JUMP IN OR STAY OUT?

Whether a national-brand manufacturer is chest high in private-label production or just considering becoming a private-label supplier to a giant retail chain, one thing he should consider seriously is the need for balance in his own operations. Not to enter private-label production may mean losing profits and some advantages; to go in for this production completely is to surrender his fate to the interests—even to the whims—of the giant retailers. In themselves, private labels are neither poison nor panacea. They exist side by side with national brands in the retail store, and they can be profitably interwoven into a manufacturer's strategy.

Private brands have grown up now, and whether a manufacturer decides to lick 'em or join 'em, he has to accept the distributor-controlled label as a potent influence on his marketing strategy in the coming decade. ♦

IN OUR THINKING we must preserve an open and enquiring mind, an ability to see things through the eyes of our opponents, a skill for understanding the motives and thoughts of those whom we oppose. Yet we must act in the light of the best knowledge and reason available to us at the moment.

—Carleton Washburne

Meshing Defense Work with Corporate Objectives

(*Continued from page* 15)

more as a balance wheel than as further extension of an existing proprietary market. Sometimes a company looks for defense business so that it can keep its facilities operating at the fullest, or to get a better spread on overhead and on general and administrative costs. But whatever the reason, defense business helps bolster the operations of many companies, providing them with a reasonable assurance of profits if the pitfalls in government contracting can be avoided.

Permanence

Government work can provide the stability or permanence that is important to stockholder and employee alike. The customer, in this case, is not likely to go out of business.

During 50 of the past 100 years, the government has bought equipment for defense. In this period there have been 20 years of "hot" wars, in addition to the current cold war. Defense spending, which represents about 30 per cent of the national budget, has made the government our largest potential customer.

Defense work can contribute to almost any organization, whether it is used as short-term work to fill idle capacity or treated as a long-term market of unlimited potential.

Defense spending has been a tool used in the past to help ease recessions and contribute to stability. A properly organized and planned defense activity within a company can help materially to ease fluctuations in the normal business cycle.

Progress

Defense work can make broad contributions to corporate growth. In addition to increasing profitable sales volume, there are several other important elements to consider.

Defense is a fountainhead of technology. From the War of 1812, when Eli Whitney developed the theory of interchangeable parts that opened new horizons for American metalsmiths, there has not been a war—even a cold one—that has not seen remarkable advances in technology. Companies that take part in these advances

develop new skills and new perceptions that, if properly assimilated, can lead to growth.

Moreover, defense business attracts—and keeps—high-caliber technical and management personnel who might not otherwise be available for development of proprietary equipment. Such personnel are attracted by the fast-paced developments in technology that are inherent in the defense effort.

HOW MUCH DEFENSE WORK?

How deeply should a company become involved in defense work? The answer must come from the company that asks the question. To deal exclusively in defense business is not a good choice for the average company. Only through development of a particular product line or a special skill the government needs can a company justify doing 100 per cent defense business.

Some companies come close to a 50-50 balance. Others impose restrictions. General Motors, for example, has reduced its percentage of defense work over the years until today it accounts for less than 10 per cent of sales.

How you should evaluate the percentage for your company depends on your motivation. Are you interested purely in added profits? Do you need to level out your production schedules? Or are you just hoping to keep your foot in the door in case "something big" happens? Are your present facilities and skills adequate to permit you to take on complex, possibly ulcer-breeding new projects? Do you need to bring your technical people up to date, hire some new ones, so that you can keep abreast?

INTEGRATING DEFENSE WORK

A healthy balance of defense and proprietary work can be achieved, depending on the size, the orientation, and the capitalization of the company. This integration may be established at different levels of the corporate structure, depending on the size of the firm involved.

The production level

At the production level, which would be a level common to all manufacturing firms, large or small, compatibility of the product

to both defense and proprietary work is the keystone that may join these apparently separate markets. In this case, management concerns itself with whether government requirements are the same or closely similar to any product that the firm supplies to the commercial market. If this is found to be so, then integration may be carried out to the full extent of the corporation's capability and capacity.

The division level

Above this product level, there may be integration based on compatibility of effort, facilities, and technical orientation. This kind of integration at the division level is not, of course, as compact and serviceable as the simple structure of the production level. The specialized nature of defense products, the special demands of quality control, and the fluidity of design imposed on the products by the constant challenge of obsolescence combine with other factors to demand a much more individualized attention to the product or effort in question. Engineering and production services must be separate, since the solution of the different technical problems requires a more specialized approach.

A separate group

The most complete approach to integration is the formation of a completely separate group to handle government business. From the viewpoint of the company as a whole this means, in effect, segregating the government work; but from the viewpoint of the specific group itself it is complete integration, since all the sales, engineering, production, accounting, and other services are combined in one organizational structure.

The specialized nature of the customer, that is, the government, demands unique consideration of its activities, and when the number of government projects being handled by a single corporation becomes large, a special group or division, almost autonomous in its internal functions, becomes mandatory.

The integration of such a separate group system with the proprietary aspects of the corporation may seem extremely tenuous, when compared to the compatible product level or the division level, but it can be considered integrated by virtue of the fact that

it is organized as conventionally as any other grouping of commercial units within the company, and its skills, facilities, and people form a reservoir of assets that equip the company to meet the changing demands of the future. This reservoir can help reduce the turnover of engineering personnel—always an important concern to a technologically oriented company. It can help develop important engineering talent, since so many of the more talented young people are turning toward the new techniques and ideas involved in defense work. And it can provide a continuous research section for techniques and products that are applicable to the proprietary divisions.

DIFFICULTIES IN INTEGRATION

There are some characteristics inherent in defense work that work to retard efforts to integrate government and proprietary operations.

Certainly security requirements is one of these. The aspect that does the most to segregate knowledge and skills is the restriction of information to those who "need to know" it. There is no question but that this aspect of national security is necessary. Unfortunately, however, its effect is to encourage extreme specialization, particularly in the scientific area, and the development of hothouse groups whose ideas may well become inbred and who become unreceptive to the possible applications of their research to the company's proprietary work.

Another obstruction to integration is the special nature of the accounting and reporting requirements demanded by government contracts. The especially itemized nature of the accounting involved requires mountains of paper and squadrons of accounting personnel to handle it. Reports must be drawn up to meet the specifications of the contract and must be provided within stipulated periods as development progresses. In many cases, these reports must be accompanied by films, which often necessitates the maintenance of a complete film department.

Manuals, written to strict specifications, must accompany the defense product to explain its character and to provide step-by-step procedure for its operation, maintenance, and repair.

The cost of the skilled personnel required to prepare all this material looms significantly in the over-all balance sheet of overhead.

Quality control requirements form another obstacle to integration, although they are perhaps the least foreign of any of the specialized problems posed by defense work. Missiles are extraordinarily complicated machines, and the malfunction of just one of the thousands of complicated parts may cause the destruction of a fabulously expensive device. The intricacy, the close tolerances, and the unprecedented strains involving these parts make it necessary to establish a quality control system all out of proportion to any but the most refined proprietary products.

Finally, in the company where proprietary work and defense work have been combined, the inevitable hazard exists of a clash between proprietary schedules and government schedules. When this occurs, the proprietary division of the company invariably suffers a setback. There may be times when the schedule has arrived at a critical point in the development of a proprietary product, and when a long expensive history of investment in proprietary research and development weighs in the balance. The proprietary work, no matter how far-reaching its effects may be for the development of the company, is required to give way to meet the demands of the defense effort.

Needless to say, management will make every attempt to avoid such a coincidence, but crash programs may result from an emergency arising from a prevailing contract or from the sudden acceptance and upgrading of a proposal. Incidents like this seriously disrupt plans, no matter how carefully they may have been worked out, and the injury that can be done to proprietary projects may be serious.

PROFIT OR LOSS?

Defense work can be rewarding or disastrous, depending on how well the individual company does its homework before it takes the leap. Strangely enough, the figures on the profit-and-loss statements are often the least revealing, since many of the benefits from defense work seem to be on the intangible side of the ledger. But for a smart, alert management and for a company that works to integrate government work with its proprietary business, the intangible benefits can, over the years, show up significantly in the profit-and-loss statements. ♦

Book Notes

(Please order directly from publishers)

GENERAL

MANAGEMENT IN INDUSTRY. By Claude S. George, Jr. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959. 585 pages. $10.00. Emphasizing the functions, problems, and problem-solving techniques of the manager, the author offers new material on such topics as automation, electronic data processing, linear programing, and operations research. Case problems, based on actual facts, review questions, and many illustrations are included.

ECONOMICS OF THE BUSINESS FIRM: *Economics of Decision Making in the Business Enterprise.* By Joseph D. Coppock. McGraw-Hill Book Company, Inc., New York, 1959. 366 pages. $6.95. Written for students of business administration and businessmen who want to know what standard economic analysis can contribute to their operations, this text provides a clear exposition of those parts of economic analysis that bear directly on the management of a business in the free enterprise economy. Major topics covered are the basic characteristics of the business firm, the mechanics of profit maximization, the determinants of demand for the firm's product, and the determinants of cost of the firm's product.

PROBABILITY AND STATISTICS FOR BUSINESS DECISIONS: *An Introduction to Managerial Economics Under Uncertainty.* By Robert Schlaifer. McGraw-Hill Book Company, Inc., New York, 1959. 732 pages. $11.50. Tying together statistical techniques and economics of business decisions, the author provides a nonmathematical introduction to decision-making under uncertainty, based on modern utility theory and "personal" probability.

THE POPULATION OF THE UNITED STATES. By Donald J. Bogue. The Free Press of Glencoe, Ill., 1959. 873 pages. $17.50. An up-to-date compilation of data heretofore scattered throughout hundreds of books, special government reports, and unpublished tabulations, this volume represents an invaluable single source of information on questions about the population of the United States.

PRACTICAL AUTOMATION: *Methods for Increasing Plant Productivity.* By Lester R. Bittel, *el al.* McGraw-Hill Book Company, Inc., New York, 1957. 376 pages. $7.50. A collection of articles from *Factory Management and Maintenance* grouped around four main topics: the fundamentals of automation, automation in manufacturing, plant engineering and maintenance for automation, and the management of automation. The work also contains brief introductions to each subject, a bibliography, and an index.

THE NEW ESQUIRE ETIQUETTE: *A Guide to Business, Sports, and Social Conduct.* By the Editors of *Esquire* Magazine. J. B. Lippincott Company, Philadelphia, Penna., 1959. 448 pages. $5.95. A newly revised, enlarged, and reorganized edition of this popular guide to good manners for men on all occasions.

POLICY MAKING AND EXECUTIVE ACTION: *Cases on Business Policy*. By Thomas J. McNichols. McGraw-Hill Book Company, Inc., New York, 1959. 693 pages. $8.00. Designed to provide a basic format for teaching business policy, the cases collected in this book are divided into six categories: top management in perspective, analysis of the situation, the decision-making process, implementation through organization and control, basic day-to-day administration, and reappraising and recharting courses of action.

INTERINDUSTRY ECONOMICS. By Hollis B. Chenery and Paul G. Clark. John Wiley & Sons, Inc., New York, 1959. 345 pages. $7.95. Combining the input-output approach with elements of linear programing, this book offers a flexible set of techniques for analyzing changes in the economic structure. A variety of theoretical models is examined and theory is consistently related to application, with illustrations drawn from actual interindustry research in many countries.

OPERATIONS RESEARCH: *Methods and Problems*. By Maurice Sasiene *et al.* John Wiley & Sons, Inc., New York, 1959. 316 pages. $10.25. Following a problem-centered review of some basic topics in probability and statistics, the authors cover inventory, waiting lines, game theory, linear programing, sequencing, and dynamic programing. Illustrative problems and exercises are included.

WHO'S WHO IN PUBLIC RELATIONS *(International)*, 1959-1960. Edited by Robert L. Barbour. PR Publishing Company, Inc., Meriden, N. H., 1959. 315 pages. $25.00. The first edition of an international roster of public relations people selected by independent board of editors solely on the basis of recognized ability and professional integrity. Indexed geographically by country, city, and (in the case of U.S. biographies) state.

BUSINESS CONDITIONS ANALYSIS. By John P. Lewis. McGraw-Hill Book Company, Inc., New York, 1959. 602 pages. $8.25. A discussion of the applications of macroeconomic analysis to the diagnosis and prediction of domestic business conditions, including the most recent advances and new materials. The author covers what the applied economic analyst needs to know about such matters as the sources of data, peculiarities of and relationships among major time series, the place of judgment and "good taste" in forecasting, and corporate decision-making.

THE MANAGEMENT OF TIME. By James T. McCay. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959. 178 pages. $3.95. The author offers a practical method for overcoming the time pressures of today and preparing for the much greater time demands of the coming decade. Going beyond superficial time-saving techniques, he underscores the intimate relationship between time pressures and the rate of personal growth.

HOW TO BECOME A TOP EXECUTIVE. By Harold Whitehead. Thomas Nelson & Sons, New York, 1959. 189 pages. $3.50. A practical guide to the development of top executive qualities. Drawing on a lifetime of shrewd observation and first-hand knowledge of businessmen—successful and otherwise—in different parts of the world, the author discusses numerous problems encountered in top management and tells how they were successfully solved.

IN SEARCH OF A WORKING PHILOSOPHY OF LIFE. By William J. Reilly. Harper & Brothers, New York, 1959. 120 pages. $2.95. Underlining the importance of feeling useful, developing our talents, understanding others, and recognizing our mutual dependence, the author discusses each of the elements that contributes to a satisfying philosophy of life.

ORGANIZING FOR PRODUCT DEVELOPMENT. Research and Development Division, American Management Association, Inc., New York, 1959. 115 pages. $3.00 (AMA members $2.00). A collection of papers by leading R & D executives covering various aspects of organizing for new product development, from the establishment of corporate objectives to the integration of the over-all program.

POWER WITHOUT PROPERTY: *A New Development in American Political Economy*. By Adolf A. Berle, Jr. Harcourt, Brace and Company, New York, 1959. 184 pages. $3.75. To illustrate the thesis that American capitalism is no longer based on property, the author discusses such topics as the habits of capital and their impact, the fission of property, the philosophy of economic power, the economic republic, and a long view of people's capitalism and Soviet communism.

SUCCESS AND FAILURE IN SMALL MANUFACTURING. By A. M. Woodruff and T. G. Alexander. University of Pittsburgh Press, Pittsburgh, Penna., 1958. 124 pages. $3.50. An analysis of the reasons for the success or failure of the small manufacturing company, based on a study initiated by the Zurn Foundation of Erie, Pennsylvania. Among the problems dealt with are one-man management, credit and its abuses, and overloaded payrolls.

ECONOMIC PLAN AND ACTION: *Recent American Developments*. By Charlton Ogburn. Harper & Brothers, New York, 1959. 287 pages. $4.75. Drawing upon the reports of the National Planning Association, the author examines such trends in the American economy since the end of World War II as the export of capital, the disposition of farm commodities surpluses, the operation of a growing federal budget, the uses of nuclear energy, collective bargaining, foreign economic policy, and the demands of national defense.

READINGS IN MANAGEMENT. Edited by Harold Koontz and Cyril O'Donnell. McGraw-Hill Book Company, Inc., New York, 1959. 523 pages. $6.50. The papers in this collection are organized in six categories: the basis of a theory of management, organization, staffing, direction, planning, and control.

INDUSTRIAL ORGANIZATION. By Joe S. Bain. John Wiley & Sons, Inc., New York, 1959, 643 pages. $9.25. A treatise on the environmental settings within which business enterprises operate and how they behave in these settings as producers, sellers, and buyers. Major emphasis is given to the relative incidence of competitive and monopolistic tendencies in various industries or markets.

CORPORATE CONCENTRATION AND PUBLIC POLICY. (Third Edition.) By Martin L. Lindahl and William A. Carter. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959. 698 pages. $8.00. This edition gives an expanded treatment of the interpretations and applications of the Sherman Act, the Antimerger Act of 1950, and the Robinson-Patman Act. The industry case studies

have been revised, a few have been deleted, and others—notably, automobiles and petroleum—have been expanded. The analysis of pricing under conditions of monopoly, oligopoly, and monopolistic competition has also been elaborated.

INDUSTRIAL ADMINISTRATION. By Stanley Vance. McGraw-Hill Book Company, Inc., New York, 1959. 570 pages. $7.00. The first half of this text describes and defines basic management concepts, and the second half deals with some of the more important techniques requisite to the performance of vital management functions. Emphasizing the decision-making aspects of industrial administration, the author includes a brief section on the development of the major managerial concepts.

ELEMENTS OF PUBLIC ADMINISTRATION. (Second Edition.) Edited by Fritz Morstein Marx. Prentice-Hall, Inc., Englewood Cliffs, N. J., 1959. 572 pages. $8.00. Although this edition is unchanged in basic organization and point of view and retains the same team of authors as the first edition, it reflects more than a decade of growth in the theory and practice of public administration.

NOTES ON OPERATIONS RESEARCH, 1959. Assembled by the Operations Research Center, M.I.T. The Technology Press, Massachusetts Institute of Technology, Cambridge, Mass., 1959. 265 pages. $4.00. A set of notes prepared for the special program in operations research for persons from the European NATO countries, which was held in Brussels in August, 1959. Designed for those with some experience in operations research and with a knowledge of calculus, the text contains chapters on such subjects as probability, Markov Processes, queueing, information theory, and production scheduling.

THE WHEELER DEALERS. By George Goodman. Doubleday & Company, Inc., Garden City, N.Y., 1959. 288 pages. $3.95. A hilarious and sophisticated novel about a Texan from Boston, a beautiful lady security analyst, and a stock that went straight up. Readers weary of the plodding run of business fiction may find this a refreshing change of pace.

PROCEEDINGS: *Executives of State and Local Trade Associations.* (*Twenty-Second Annual Conference.*) The Ohio State University, Columbus, Ohio, 1959. 111 pages. Gratis. Among the topics discussed at this conference, held in September, 1958, were the trade association and political activity, creativity, press relations, and executive development and industry training.

TWA'S SERVICES TO ETHIOPIA. By Theodore Geiger. National Planning Association, Washington, D. C., 1959. 80 pages. $1.00. The eighth case study in an NPA series, "United States Business Performance Abroad," this report describes how TWA helped the Imperial Ethiopian Government to establish Ethiopian Air Lines and to develop it in 13 years into "one of the fastest growing and most dynamic commercial air carriers in the world."

FORECASTING THE PRICE LEVEL, INCOME DISTRIBUTION, AND ECONOMIC GROWTH. By Sidney Weintraub. Chilton Company—Book Division, Philadelphia, Penna., 1959. 123 pages. $5.00. Offering an exact method of combatting inflation, the author shows how wage phenomena, monopoly practices,

and productivity improvements affect the price level and govern economic growth. He also illustrates how the misuse of Keynes' analysis has led to "creeping inflation"—or worse.

INTRODUCTION TO BUSINESS: *A Management Approach.* By Arthur M. Weimer. Richard D. Irwin, Inc., Homewood, Ill., 1959. 566 pages. $7.80. This well-illustrated text covers such topics as orientation to business, business firms and their management, business resources and operations, the business environment, and future business problems and opportunities.

ANNIVERSARY CELEBRATIONS MADE EASY: *How to Plan, Organize, and Produce Them for All Kinds of Organizations.* By John Donald Peel. Chilton Company—Book Division, Philadelphia, Penna., 1959. 318 pages. $5.00. Combining procedure, a workbook, and a sourcebook of ideas for the staging of anniversary celebrations, this manual should be helpful to anyone responsible for setting up a public anniversary celebration and exploiting its publicity and public relations values.

INTRODUCTION TO THE NEW ECONOMICS. By Bernard L. Cohen. Philosophical Library, New York, 1959. 176 pages. $3.75. Adopting the "cellular theory" from the biological sciences, the author develops a new and unified concept of the entire apparatus of industry, commerce, banking, and transportation.

DYNAMIC MANAGEMENT DECISION GAMES: *Including Seven Noncomputer Games.* By Jay R. Greene and Roger L. Sisson. John Wiley & Sons, Inc., New York, 1959. 84 pages. $2.95. The games described in this book cover every level of management in a business organization as well as a wide range of business problems. In addition to providing a detailed analysis of the games themselves, the authors discuss the value of management decision games, how to construct them, and how to direct and modify them.

ORGANIZATION AND CONTROL OF THE SMALLER ENTERPRISE. By Douglas C. Basil. The University of Minnesota Press, Minneapolis, Minn., 1959. 97 pages. $2.50. A discussion of management concepts that are not only desirable but essential to the successful operation of a small business. The concepts are illustrated with a number of examples drawn from actual company experiences, and an extensive bibliography is provided.

THE WAIST-HIGH CULTURE. By Thomas Griffith. Harper & Brothers, New York, 1959. 275 pages. $4.00. Part autobiography, part commentary, this is a wide-ranging look at what "the pursuit of the profitable middle" has done and is doing to America and Americans. The author, who is Foreign News editor of *Time* magazine, does not much like what he sees, and the thoughtful reader, be he pursuer or pursued, is likely to share his misgivings.

PUBLIC REGULATION OF BUSINESS. By Dudley F. Pegrum. Richard D. Irwin, Inc., Homewood, Ill., 1959. 732 pages. $9.00. An analysis of the economic aspects of the public regulation of business. Following a discussion of the institutional, organizational, and economic functions involved, the author considers the regulation of business in general through the antitrust laws and the special regulation of transportation and public utilities under the unique and more restrictive laws which apply to these industries.

GOVERNMENT AND PUBLIC ADMINISTRATION: ***The Quest for Responsible Performance.*** By John D. Millett. McGraw-Hill Book Company, Inc., New York, 1959. 484 pages. $7.95. A detailed description of the various types of control that are exercised by the legislative, executive, and judicial branches of our government over administrative agencies. Opening with a general discussion of the constitutional position of public administration in our system of government, the author then describes the legislature, the executive, and the judiciary, and ends with a chapter on the goal of responsible bureaucracy.

ENDS AND MEANS OF MODERN MANAGEMENT: ***Guides for Top Management Planning and Action.*** General Management Division, American Management Association, Inc., New York, 1959. 158 pages. $3.75 (AMA members, $2.50). A selection of papers originally presented at AMA's West Coast General Management Conference in Los Angeles in January, 1959. The discussions stress the manager's role as a skilled leader and as an instrument of environmental improvement.

Q&A on AMA

Q. *Several of our managers have expressed a desire to attend the same AMA Workshop Seminar. Why are registrations for Workshops limited to only one person from any given company?*

A. The strength of an AMA Workshop Seminar rests in the exchange of operating experience—in the guided discussion of management ideas, methods and problems—among managers experienced in the subject area. There are no lectures or formal presentations as in other types of meetings. The exchange in a Workshop is most productive when a wide variety of backgrounds and organizations are represented around the table.

If two or more men from a single company were present in a Workshop, their contribution to the discussions would normally represent only the experiences and methods of a single organization. The total value of the exchange of ideas would be lessened proportionately for everyone present.

If you have any questions about AMA's program or policies, please submit them to AMA's Member Service Section. All inquiries will be answered promptly. Those questions of most general interest will appear in this feature in subsequent issues of *The Management Review*.